BAILOUTS AND THE FORECLOSURE CRISIS: REPORT OF THE SPECIAL INSPECTOR GENERAL FOR THE TROUBLED ASSET RELIEF PROGRAM [SIGTARP]

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BAILOUTS AND THE FORECLOSURE CRISIS: REPORT OF THE SPECIAL INSPECTOR GENERAL FOR THE TROUBLED ASSET RELIEF PROGRAM [SIGTARP]

WEDNESDAY, JANUARY 26, 2011

HOUSE OF REPRESENTATIVES,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, DC.

The committee met, pursuant to notice, at 9:35 a.m., in room HVC–210, Capitol Visitor Center, Hon. Darrell E. Issa (chairman of the committee) presiding.

Present: Representatives Issa, Platts, Turner, McHenry, Jordan, Chaffetz, Mack, Walberg, Lankford, Amash, Buerkle, Gosar, Labrador, Meehan, DesJarlais, Walsh, Gowdy, Guinta, Farenthold, Kelly, Cummings, Towns, Maloney, Norton, Kucinich, Clay, Lynch, Connolly, Quigley, Davis, and Welch.

Staff present: Kurt Bardella, deputy communications director and spokesman; Michael R. Bebeau and Gwen D'Luzansky, assistant clerks; Robert Borden, general counsel; Will L. Boyington, Drew Colliatie, Kate Dunbar, and Nadia A. Zahran, staff assistants; Molly Boyl, parliamentarian; Lawrence J. Brady, staff director; Sharon Casey, senior assistant clerk; Steve Castor, chief counsel, investigations; Katelyn E. Christ, research analyst; Benjamin Stroud Cole, policy advisor and investigative analyst; John Cuaderes, deputy staff director; Adam P. Fromm, director of Member liaison and floor operations; Linda Good, chief clerk; Tyler Grimm and Tabetha C. Mueller, professional staff members; Peter Haller, senior counsel; Christopher Hixon, deputy chief counsel, oversight; Hudson T. Hollister, counsel; Seamus Kraft, director of digital strategy and press secretary; Justin LoFranco and Cheyenne Steel, press assistants; Mark D. Marin, senior professional staff member; Laura L. Rush, deputy chief clerk; Jeff Wease, deputy CIO; Dave Rapallo, minority staff director; Carla Hultberg, minority chief clerk; Susanne Sachsman Grooms, minority chief counsel; Lucinda Lessley, minority policy director; Davida Walsh, Brian Quinn, and Donald Sherman, minority counsels; Amy Miller, Alex Wolf, and Jill Crissman, minority professional staff members; Mark Stephenson, minority senior policy advisor/legislative director; Chris Staszak, minority senior investigative counsel; Steven Rangel and Jason Powell, minority senior counsels; Jenny Rosenberg, minority director of communications; and Eddie Walker, minority technology director.

Chairman ISSA. Good morning and welcome to our first hearing of the full committee of the 112th Congress. Today's hearing is on the bailout and the foreclosure crisis, and specifically the report of the Special Inspector General for the Troubled Asset Relief Program, SIGTARP.

This is the first hearing for both Chairman Issa and Ranking Member Cummings, so I ask all of your indulgence as we go through a number of first-time mistakes that undoubtedly I will make.

The Chair notes that pursuant to the rules, there will not be opening statements. However, Members may have 7 days to submit opening statements and extraneous materials for the record.

We will now recognize our panel.

Mr. CUMMINGS. Mr. Chairman.

Chairman ISSA. Yes.

Mr. CUMMINGS. Parliamentary inquiry, Mr. Chairman. I know this is our first meeting, and I just want to make sure we are clear. We had a lengthy discussion on opening statements——

Chairman ISSA. Would the gentleman state his purpose?

Mr. CUMMINGS. I am trying to do that. We had a lengthy discussion yesterday with regard to opening statements and I thought we had reached a wonderful agreement where the chairman had said that he would provide us notice with regard to opening statements, whether we were giving them or not. And this is our first hearing and some of the Members and, of course, I am just wondering exactly why we are not having opening statements and, two, we were given notice just about half an hour ago or so that there would not be opening statements. I am just wondering.

Chairman ISSA. I thank the gentleman. The Chair is waiving opening statements, including my own, and, as I said, all Members will have 7 days in order to place their opening statements into the record.

On a very personal note, I felt that it was most important on this first hearing to start off by listening to the witnesses as though this—and I know that the Special IG, this is his 20th visit. However, for the purpose of all of us, including the freshmen, I wanted to start off by listening first. I recognize that tradition is that we hold the witnesses here for sometimes an hour through opening statements.

That is a tradition that I intend to break. That doesn't mean that there won't be opening statements in the future, but for this first one I wanted to make it perfectly clear, if you will, that we are interested in listening to our witnesses first. And I appreciate the gentleman's problem.

Mr. CUMMINGS. Mr. Chairman, further parliamentary inquiry. Pursuant to what you said yesterday—and I have the transcript—will you be giving us more notice with regard to that? I mean, I thought we were very—we had a gentleman's wonderful discussion yesterday where you said you would give us proper notice, and I was just wondering what should we expect in the future, and that is all.

Chairman ISSA. As I said, we will intend to give notice to all things. In this case, we only organized yesterday, less than 24 hours ago. In the future, I would expect there would be greater notice. And I appreciate the gentleman's question.

Mr. KUCINICH. Would the chairman yield? Would the chairman yield for a question?

Chairman ISSA. At this time I am going to introduce the witnesses.

Mr. Timothy——

Mr. KUCINICH. Mr. Chairman.

Chairman ISSA. For what purpose is the gentleman seeking recognition?

Mr. KUCINICH. An inquiry of the Chair with respect to procedure.

Chairman ISSA. The gentleman will state his inquiry.

Mr. KUCINICH. I have been in the Congress for 14 years and I have never, it is just unprecedented that the ranking member not be permitted to give an opening statement or for a chair to dispense with opening statements.

Chairman ISSA. Does the gentleman have a parliamentary inquiry?

Mr. KUCINICH. I didn't make a parliamentary inquiry. I would ask——

Chairman ISSA. Then the gentleman is no longer recognized.

We will now introduce——

Mr. LYNCH. Mr. Chairman.

Chairman ISSA. We will now introduce——

Mr. LYNCH. On a point of order.

Chairman ISSA. Yes, a point of order.

Mr. LYNCH. I certainly understand if the chairman has decided that he has nothing to say, but can you cite one example, any single example in the history of the Congress, if you would, where a minority ranking member has not been afforded, not been given the respect of an opportunity to make a brief opening statement?

Chairman ISSA. The Chair will respond for the record with an appropriate list of the times in which opening statements have been waived or ranking members have not been able to——

Mr. LYNCH. But you can't think of one right now.

Chairman ISSA. The gentleman is no longer recognized.

We now turn to our witnesses. Mr. Timothy Massad is the Acting Assistant Secretary of the Treasury Department's Office of Financial Stability and Chief Troubled Asset Relief Program. Mr. Massad assumed the title of Assistant Secretary on September 2010, after Herbert Allison stepped down from the position. Before that, Mr. Massad served as the Chief Counsel and Chief Reporting Officer for the Office of Financial Stability. Prior to starting his government work, he worked at the onset of the 2008 financial crisis. Mr. Massad was a partner at Cravath, Swaine & Moore, where he had a diverse international corporate practice with an emphasis on security offerings and bank financing, counseling underwritings and security issues. Mr. Massad received an B.A. degree magna cum laude from Harvard College in 1978 and his J.D. magna cum laude from Harvard Law School in 1984.

Mr. Neil Barofsky, no stranger to this committee, was sworn into the office on December 2008 as the Special Treasury Department Inspector General to oversee the Troubled Asset Relief Program. Prior to that, Mr. Barofsky was a Federal prosecutor in the U.S.

Attorney's Office for the Southern District of New York for more than 8 years. In that office, Mr. Barofsky was the senior trial counsel who headed the mortgage fraud group. Mr. Barofsky also has extensive experience as a line prosecutor leading white collar prosecutions during his tenure as a member of the Securities and Commodities Fraud Unit.

Mr. Barofsky also led the investigation that resulted in the indictment of the top 50 leaders of the Revolutionary Armed Forces of Colombia [FARC], as it is better known, on narcotics charges, a case described by the then attorney general as the largest narcotics indictment filed in U.S. history. Mr. Barofsky received his B.A. from the Wharton School of Business and is a magna cum laude graduate of the New York University of Law.

Pursuant to the committee rules, all witnesses will be sworn in before testifying. Please rise, raise your right hands.

[Witnesses sworn.]

Chairman ISSA. Thank you. You may please be seated.

As is the custom of this committee, we would ask that your full written statements be placed in the record and that you limit your opening statements as close as possible to 5 minutes.

As was the custom of my predecessor, you will see three lights. Green means continue to go, yellow is the warning that you should not run through our intersection, and red in all 50 States means stop.

Thank you, Mr. Chairman.

The normal rule of committee is that we go in order of rank. Mr. Massad, I believe you would, by protocol, be first.

STATEMENTS OF TIM MASSAD, ACTING ASSISTANT SECRETARY FOR FINANCIAL STABILITY AND CHIEF COUNSEL, U.S. DEPARTMENT OF THE TREASURY; AND NEIL BAROFSKY, SPECIAL INSPECTOR GENERAL FOR THE TROUBLED ASSET RELIEF PROGRAM

STATEMENT OF TIM MASSAD

Mr. MASSAD. Thank you, Mr. Chairman. Chairman Issa, Ranking Member Cummings, members of the committee, thank you for the opportunity to testify today about the Troubled Asset Relief Program [TARP], as it is commonly known. I am the Acting Assistant Secretary for Financial Stability at the Treasury, which means I am responsible for overseeing the program on a day-to-day basis.

I recognize that TARP has not been popular. There is good reason for that: no one likes using taxpayer dollars to rescue financial institutions. Nonetheless, sitting here today, more than 2 years after a bipartisan Congress passed the legislation that created TARP, it is clear that the program has been remarkably effective by any objective measure.

First and foremost, TARP helped prevent a catastrophic collapse of our financial system and our economy. In the fall of 2008 we were staring into the abyss. Lending by banks had practically stopped, our credit markets had shut down, and countless financial institutions were under severe stress. This was a crisis not only for Wall Street, but also for Main Street. Simply put, we were at the risk of going into a second Great Depression.

Today people no longer fear that our major financial institutions or our financial system is going to fail. Banks are much better capitalized and the weakest parts of our financial system no longer exist. The credit markets on which small businesses and consumers depend, for auto loans, credit cards, student loans and other financing, have reopened. Businesses are able to raise capital and mortgage rates are at historic lows.

Of course, the economy has not yet fully recovered and there is still much work to be done. Unemployment is unacceptably high and the housing market remains weak. But the worst of the storm has passed.

Second, we will not use all the money Congress made available for TARP, and we are existing our investments and the private sector far faster than anyone thought possible. Let me briefly summarize a few key facts.

Congress originally authorized $700 billion for this program. We will spend no more than $475 billion. And of the money spent to date, much of it has been repaid, approximately $270 billion. We still have about $166 billion invested in various institutions and I am hopeful that we will recover much of that over the next 2 years, depending on market conditions.

Finally, the ultimate cost of TARP will be far less than anyone expected. The total cost was initially projected to be approximately $350 billion. That number, however, has steadily declined over the past 2 years. According to the most recent estimates from both Treasury and the nonpartisan Congressional Budget Office, the overall cost of TARP will be in the range of $25 billion to $50 billion. And the direct fiscal cost of TARP, as well as all the other interventions to address this crisis, is far less, as a percentage of GDP, than the cost of resolving the S&L crisis in the 1980's.

In addition, the TARP cost will be primarily attributable to what we spend on our housing programs and our efforts to help responsible American families keep their homes. We expect that all the other TARP programs and investments, when considered as a whole, will result in very little or no cost to the American taxpayers, and possibly a profit.

In all of these efforts, TARP has been subjected to unprecedented oversight. When Congress created TARP, it also directed four different oversight bodies, including the Special Inspector General for TARP, Mr. Barofsky, who is sitting with me today, to carefully review all of our programs. In addition, TARP has been subject to vigorous congressional oversight by this committee and several others. We welcome this oversight. Individually and collectively, it has helped us to develop, implement, and constantly improve our TARP programs. And we have strived to be transparent by providing a wealth of information about the program to the public.

In particular, I look forward today to discussing Mr. Barofsky's most recent quarterly report. I am pleased that the report concluded that TARP helped, as he put it, head off a catastrophic financial collapse and that the program's financial prospects are today far better, as he says, than anyone could have dared to hope just 2 years ago.

The other oversight agencies have reached similar conclusions. The report also raises a number of concerns about the HAMP program and the so-called too big to fail issue, and I am happy to discuss those as well.

Mr. Chairman, TARP succeeded in what it was designed to do: it helped stabilize the financial system and lay the foundation for economic recovery. It was not designed to solve all our problems, and we recognize that many Americans are still suffering. Nonetheless, thanks to a comprehensive strategy and decisive action, our economy is far stronger today than it was 2 years ago. Both political parties deserve credit for these achievements. Congress enacted the program at a time when the financial system was falling apart. In that moment, leaders from both parties stood up, stood together and did what was best for this country.

Thank you again for providing me the opportunity to testify here, and I welcome your questions.

[The prepared statement of Mr. Massad follows:]

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Acting Assistant Secretary Timothy G. Massad
Written Testimony
House Committee on Oversight and Government Reform
January 26, 2011

Chairman Issa, Ranking Member Cummings, Members of the Committee, thank you for the opportunity to testify today about the Troubled Asset Relief Program ("TARP"). As the Acting Assistant Secretary for Financial Stability, I am responsible for overseeing the program on a day-to-day basis.

I recognize that TARP has not been popular. There is good reason for that—no one likes using taxpayer dollars to rescue financial institutions. Nonetheless, sitting here today, more than two years after Congress passed the Emergency Economic Stabilization Act ("EESA") that created TARP, it is clear that the program has been remarkably effective by any objective measure.

First and foremost, TARP helped bring the economy and our financial system back from the brink, and it helped pave the way for recovery. Fear that our major financial institutions are going to fail has receded. Banks are much better capitalized, and the weakest parts of the financial system no longer exist. The credit markets on which small businesses and consumers depend—for auto loans, student loans, credit cards and other financing—have reopened. Businesses are able to raise capital. Mortgage rates are at historic lows. Of course, the economy has not yet fully recovered and there is still much work to be done. Unemployment is unacceptably high and the housing market is still weak. But the worst of the storm has passed.

Second, we did not use all the funds originally provided, and we are unwinding TARP far faster than anyone ever thought possible. Congress originally authorized $700 billion for the program. We will spend no more than $475 billion. And of the $410 billion disbursed to date, we already have received back a total of $270 billion, representing $235 billion in repayments and $35 billion in additional income. Approximately $166 billion remains outstanding in various institutions, and I am hopeful that we can recover most of that over the next couple of years, market conditions permitting.

Finally, the ultimate cost of TARP will be far less than ever contemplated. The total cost was initially projected to be approximately $341 billion. That number, however, has steadily declined over the past two years. The latest estimates, both from Treasury and the Congressional Budget Office ("CBO"), are that the overall cost of TARP will be about $25 to $50 billion, which is largely attributable to our efforts to help responsible homeowners deal with the housing crisis. All the other TARP programs and investments, when considered as a whole, likely will result in very little or no cost to the American taxpayer.

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Overview of the Government's Actions

I would like to begin by providing a brief overview of the actions taken under TARP and of how these actions were part of an overall government strategy to repair the damage caused by the financial crisis.

In the fall of 2008, our economy stood at the brink and we faced the risk of a second Great Depression. As the crisis spread, the previous Administration and the Federal Reserve took a series of unprecedented actions to help stabilize a financial system that was at the edge of a catastrophic collapse. These actions included:

- Providing broad-based guarantees to the financial system, through programs such as the FDIC's Temporary Liquidity Guarantee Program and the Treasury Money Market Fund guarantee program;

- Initiation of extraordinary facilities, through the Federal Reserve, to support liquidity across the financial system; and

- Support for the Government-Sponsored Enterprises ("GSEs"), pursuant to the Housing and Economic Recovery Act.

However, the severe conditions our nation faced required additional resources and authorities. Therefore, the Bush Administration proposed EESA, which created TARP. It was enacted into law on October 3, 2008, with the support of both Democrats and Republicans in Congress.

Actions Taken by the Bush Administration under TARP

The Bush Administration originally proposed TARP as a means for the government to buy mortgage loans, mortgage-backed securities, and certain other "troubled assets" from banks. The fact that it was not used for this purpose promptly after passage has led to criticism of the program. However, by early October 2008, lending between banks had practically stopped, credit markets had shut down, and many financial institutions were under severe stress. It was clear there was not sufficient time to implement a program to buy mortgage-related assets. In this context, the Bush Administration determined that immediate capital injections were needed to stabilize the banks and to avert a potential catastrophe. EESA provided this authority, because the statute had been broadened in the legislative process.

Therefore, during the fall and winter of 2008, the Bush Administration used approximately $300 billion of TARP authority as follows:

- $234 billion was invested in banks and thrifts, including $165 billion in eight of the largest financial institutions (plus commitments of additional funds to two of those banks);

- $40 billion was invested in American International Group ("AIG") along with additional funds from the Federal Reserve; and

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- Approximately $20 billion was provided to the auto industry.

The combined effect of the actions taken by the Federal Reserve and the previous Administration helped stop the panic and slow the momentum of the financial crisis. But despite these extraordinary actions, when President Obama took office in early 2009, the financial system was still paralyzed and the economy was contracting at an accelerating rate.

The nation had already lost 3.5 million jobs in 2008 and was losing additional jobs at the rate of 750,000 per month. Home prices were falling, and foreclosures were increasing. Businesses were cutting back on investments and were unable to raise capital. For individual families who needed credit—who wanted to buy a house or a new car, or put a child through college—it was more difficult to borrow money than at any time since the Great Depression.

Actions Taken by the Obama Administration under TARP

Against this background, the Obama Administration, working alongside the Federal Reserve, put in place a broad strategy to restore economic growth, free up credit, and return private capital to the financial system. The Administration's strategy combined the American Recovery and Reinvestment Act, a powerful mix of targeted tax measures and investments, with a comprehensive plan to repair the financial system.

This plan represented an important shift in strategy. The Financial Stability Plan shifted the focus away from support of individual institutions to restarting the broad markets for capital and credit that are critical for economic growth. It was designed to maximize the chance that private capital bore the burden of solving the problems of the crisis. We provided support for the housing market and for homeowners in order to facilitate broader economic recovery. And when we did provide extraordinary assistance to individual firms, our assistance came with tough conditions.

The Administration's Financial Stability Plan had three central components:

- *First*, to recapitalize and bring clarity to the banking system;

- *Second*, to restart the credit markets that are critical to borrowing for businesses, individuals, and state and local governments; and

- *Third*, to help stabilize the crisis in the housing market.

As part of that plan, the Treasury Department has taken the following actions under TARP over the last two years:

Recapitalizing the Banking System

Our financial system needed to be recapitalized. But private capital could not be raised until the condition of the major financial institutions was made clear. Treasury worked with the federal

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banking regulators to develop a comprehensive, forward-looking "stress test" for the nineteen largest bank holding companies to determine which ones would need more capital to remain well-capitalized if economic conditions deteriorated significantly more than expected. The stress test was conducted with unprecedented openness and transparency, which helped restore market confidence in our financial system. Treasury allowed banks needing capital to reapply for further assistance under TARP, but only one did so. Since completion of the stress test, these banks have raised an aggregate of more than $150 billion in private capital, and 13 of the stress test banks that had TARP investments have repaid the government in full.

Jumpstarting the Credit Markets

The second key aspect of the Financial Stability Plan was committing resources in order to restart key channels of credit to households and businesses.

- Through the Term Asset-Backed Securities Loan Facility ("TALF"), a joint program with the Federal Reserve, we helped restart the asset-backed securitization markets that provide credit to consumers and small businesses. Since TALF was launched in March 2009, new issuances of asset-backed securities have averaged $10.5 billion per month, compared to less than $2 billion per month during the height of the crisis.

- Through the Public-Private Investment Program ("PPIP") for legacy securities, we matched TARP funds with private capital to purchase legacy mortgage-related securities. This program helped return liquidity to key markets for financial assets and clean up the balance sheets of major financial institutions. Since the announcement of PPIP in March 2009, prices for eligible residential and commercial mortgage-backed securities have increased by as much as 75 percent. Moreover, although the funds are still in their early ramp-up phase, they have been successful in earning a positive return for taxpayers.

- Through the SBA 7(a) Securities Purchase Program, we committed to help unlock credit for small business by purchasing securities backed by small business loans. Markets for these securities have since returned to healthy levels.

Stabilizing the Auto Industry and AIG

Treasury provided additional assistance to General Motors ("GM") and Chrysler on the condition that those companies fundamentally restructure their businesses. These restructurings involved sacrifices from all stakeholders—shareholders, unions, auto dealers, and creditors—and have enabled the companies to become more competitive. This assistance also helped the many suppliers and ancillary businesses that depend on the automotive industry. Our actions helped save countless jobs across the country (as many as a million, by one estimate) and helped create many new ones. Since GM and Chrysler emerged from bankruptcy, the industry has added 88,500 jobs. Moreover, our strategy has restored the auto companies to profitability. For the first time in six years, Ford, GM, and Chrysler are all operating at a profit.

Treasury also took steps to restructure the assistance that had been provided to AIG under the Bush Administration. This involved making an additional commitment of support and working with AIG toward repaying the government by selling non-core businesses and completing other restructuring initiatives. Treasury worked with the Federal Reserve and AIG to recruit an almost entirely new board of directors and several new members of senior management, including the Chief Executive Officer. The management team, in turn, has taken a variety of steps to reduce risk and to focus on AIG's core insurance businesses. And we have now entered into a recapitalization transaction that paves the way for full repayment to the federal government, as described below.

Support for Small and Mid-Sized Banks

While the Obama Administration made no further investments in the nation's largest banks, Treasury invested $11 billion in more than 400 other banks and thrifts, most of which were small and community banks. In recognition of the fact that they had fewer alternatives to raise capital, the smallest banks were also given additional time to apply for assistance. The Obama Administration focused on small banks not only because EESA required that assistance be made available to financial institutions regardless of size, but also because of the critical role small banks play in so many of our nation's communities. They are critical sources of financing to small businesses, which are responsible for generating nearly 70% of private sector jobs, as well as to many families. Because community development financial institutions serve small businesses and consumers in the communities hardest hit by the recession, communities that are typically underserved by large financial institutions, a special program was established to help those institutions.

Helping Responsible but Struggling Homeowners

Finally, the Obama Administration took a series of actions to help address the crisis in the housing markets. The focus of our strategy has been to provide stability to housing markets and to give Americans who can afford to stay in their homes a chance to do so. By reducing mortgage rates and by providing sensible incentives to prevent avoidable foreclosures, these policies have helped begin to put a floor under housing prices and have given millions of Americans a chance to stay in their homes.

In particular, under TARP, we launched the Making Home Affordable ("MHA") program to help responsible homeowners avoid foreclosure. The Home Affordable Modification Program ("HAMP"), the largest MHA program, has helped hundreds of thousands of struggling families stay in their homes and has reduced their mortgage payments by a median of over $500 per month. In addition, it has spurred the mortgage industry to adopt similar programs that have helped millions more at no cost to the taxpayer.

As the housing crisis has evolved, Treasury responded by taking additional actions. For example, we have expanded MHA to address the problem of second liens, to provide incentives for other alternatives to foreclosure such as short sales, to provide additional help to the unemployed, and to encourage principal reduction. In addition:

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- Treasury launched the Housing Finance Agency Hardest Hit Fund to help state housing finance agencies provide additional relief to homeowners in the states hit hardest by unemployment and house price declines.

- Treasury and the Department of Housing and Urban Development enhanced the FHA Short Refinance program to enable more homeowners whose mortgages exceed the value of their homes to refinance into more affordable mortgages.

The TARP housing programs were not meant to prevent all foreclosures. To protect limited taxpayer resources, these initiatives have strict eligibility criteria, and most have pay-for-success incentives: funds are spent only when transactions are completed and only as long as those contracts remain in place. Therefore, most of the funds have not yet been disbursed. They will be disbursed over the current decade.

Of course, we have faced many challenges in developing and implementing these programs. We often have been forced to balance conflicting policy goals—such as how to design programs that encourage the participation of struggling borrowers and help them get back on their feet, while minimizing the cost to the government, moral hazard, adverse selection, and operational and financial risks and complexity. Implementation has been difficult, and much work remains to be done to ease the housing crisis. But that should not obscure the importance of what has been accomplished. Our housing programs have established key benchmarks and borrower protections that are now viewed as industry best practices. As a direct and indirect result, millions of families are still in their homes today because of these programs. They have avoided the intense pain, cost, and disruption of losing their homes. Their neighbors and their local communities have benefited as well. A vacant home is dangerous and costly to a neighborhood. Therefore, we will continue to try to help as many eligible homeowners as possible, in a manner that safeguards taxpayer resources.

The Economic Impact of Our Policies

In any assessment of a response to a financial crisis, there are several important measures of success, such as what is the effect on availability of credit and economic growth? How quickly is the government able to return the financial system to private hands? What was the direct financial cost of the interventions? And finally, has the response left the financial system able to support rather than impede economic growth?

On all of these measures, I believe TARP and the government's other emergency actions have succeeded. Secretary Geithner testified in detail about the effects of our actions in his recent appearance before the Congressional Oversight Panel in December. Also, we discussed various measures of the effectiveness of these programs in the TARP Retrospective that we published on the two-year anniversary of the program.

Although we can never know with certainty where we would be today without these emergency policies, one of the most comprehensive independent analyses of the overall impact of our response, by economists Mark Zandi and Alan Blinder, concluded that without the Recovery Act, TARP, and other government actions, GDP would have still been contracting in 2010 at the astonishing rate of 3.7 percent, unemployment would have reached 16.5 percent, and we would be experiencing deflation. In short, they say, "this dark scenario constitutes a 1930s-like depression."

Exiting and Winding Down our Investments

We have moved quickly to reduce the dependence of the financial system on emergency support and to return private institutions to private hands as quickly as possible. For example, the programs to provide guarantees to money market funds, bank debt, and bank transactional accounts have expired. And, Treasury has exited its TARP investments much faster than anyone anticipated. Of the total of $410 billion invested in various institutions, we have already recovered more than $235 billion, as well as $35 billion in additional income. Approximately $166 billion remains to be recovered.

Banking Institutions

A total of $245 billion has been invested in banking institutions, of which $208 billion has been recovered. When President Obama took office, the U.S. government had made investments in financial institutions representing 75 percent of the entire banking system by assets. Today, our remaining investments in banks represent only approximately 10 percent of the banking system. The largest banks have fully repaid. Moreover, the TARP programs to provide assistance to banks as a whole will result in a positive return to the taxpayer.

Citigroup was one of the largest recipients of TARP assistance, as we invested a total of $45 billion. At the time, many doubted whether Citigroup would survive and whether the government ever would be repaid. As of last December, however, we have recovered the entire $45 billion, and we have realized a positive return in excess of $12 billion on our overall investment. Moreover, a recent report by the Special Inspector General for TARP concluded that the government assistance provided to Citigroup was carefully designed and that it achieved its primary goal of restoring market confidence.

Auto Industry

We have recovered a total of $27 billion of the $80 billion invested in the auto industry. We completed a highly successful initial public offering of General Motors in November of last year. Since the company emerged from bankruptcy in July 2009, the government has recovered almost half of its $50 billion investment and has reduced its stake in GM from 60.8 percent to 33.3 percent. We now have a pathway to exit for the remaining investment. We also are working on pathways to exit for our investments in Chrysler and Ally Financial.

AIG

Earlier this month, AIG closed a major restructuring plan, which represented the culmination of two years of efforts to "resolve" AIG. AIG repaid the Federal Reserve $47 billion and Treasury now has a pathway to recover its investment as well. Market prices will fluctuate and there is no guarantee of what the ultimate returns will be. However, if we are able to sell our investments in

AIG at current market values, including the AIG shares that Treasury received from the trust established by the Federal Reserve, taxpayers will get back every dollar put into AIG and will realize a positive return.

The Total Cost of TARP

In terms of direct financial cost, TARP will rank as one of the most effective crisis response programs ever implemented. Independent observers, such as the Congressional Budget Office ("CBO"), initially estimated that TARP would cost $350 billion or more. Now, because of the success of the program, TARP is likely to cost only a fraction of that amount. Most recently, CBO estimated that the cost of the program would be as low as $25 billion.

The cost of TARP is likely to be no greater than the approximate amount spent on the program's housing initiatives—expenditures that were necessary to prevent even greater losses and hardships to American families and local communities, and that were never intended to be returned. The remainder of the programs under TARP—the investments in banks, AIG, credit markets, and the auto industry—likely will result in very little or no cost. When the Treasury's entire investment in AIG is included, we may realize a positive return for taxpayers.

Furthermore, the cost of the government's broader response efforts is remarkably low when compared to past systemic crises. An IMF study found that the average net fiscal cost of resolving roughly 40 banking crises since 1970 was 13 percent of GDP. The GAO estimates that the cost of the U.S. Savings and Loan Crisis was 2.4 percent of GDP. In contrast, the direct fiscal cost of all our interventions, including the actions of the Federal Reserve, the FDIC, and our efforts to support the GSEs is likely to be less than one percent of GDP. The true cost of this crisis to the economy, however—the jobs, wealth and growth that it erased—is much higher, but that damage would have been far worse without the government's emergency response.

Robust and Effective Oversight

TARP has been subjected to unprecedented oversight since its inception. The Emergency Economic Stabilization Act of 2008 established four separate oversight avenues for TARP: the Financial Stability Oversight Board ("FinSOB"); specific responsibilities for the Government Accountability Office ("GAO"); the Special Inspector General for TARP ("SIGTARP"); and the Congressional Oversight Panel ("COP").

Treasury cooperates with each oversight body's efforts to review TARP programs and to produce periodic audits and reports. On average, Treasury responds to approximately 85 requests for information per month (over 4 per business day) by these entities. To date, Treasury also has responded to 72 reports from GAO, COP, and SIGTARP; and Treasury has participated in at least 25 Congressional hearings on TARP. Individually and collectively, the work performed by TARP's oversight bodies has made and continues to make important contributions to the development, strengthening, and transparency of TARP programs. Treasury welcomes this oversight and, to date, has adopted 114 recommendations made by these oversight bodies.

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Treasury prepares separate financial statements for TARP on an annual basis. In its first two years of operations, TARP's financial statements received unqualified ("clean") audit opinions from the GAO, and separate reports on internal control over financial reporting found no material weaknesses—unprecedented achievements for a start-up operation of this scale. As a result of these efforts, the Office of Financial Stability received a Certificate of Excellence in Accountability Reporting ("CEAR") from the Association of Government Accountants.

In addition, Treasury regularly provides comprehensive information to the public to help American taxpayers better understand the status of our programs. This includes:

- A monthly report to Congress that details how TARP funds have been used, the status of recovery of such funds by program, and information on the estimated cost of TARP;

- A monthly housing report containing detailed metrics on the housing programs;

- A quarterly report on the PPIP program that provides detailed information on the funds, their investments, and returns;

- A report on each transaction (such as an investment in or repayment by an institution) within two business days of completing the transaction;

- A quarterly report that details all dividend and interest payments;

- Periodic reports on the sale of warrants, which includes information on auctions as well as on how the sale price was determined in the case of any repurchase of warrants by a TARP recipient; and

- Monthly lending and use of capital surveys that contain detailed information on the lending and other activities of banks that have received TARP funds.

Finally, Treasury posts on our website every TARP investment agreement and contract, all program guidelines and application materials, procurement contracts, and other material pertaining to the program.

Conclusion

TARP succeeded in what it was designed to do: it helped bring stability to the financial system and lay the foundation for economic recovery. And it did so at a fraction of the expected costs. TARP was not designed to solve all our problems. We recognize that the American people are still feeling the effects of the financial crisis, and the economy continues to show signs of significant damage. The Obama Administration will continue to work to address these challenges. Nevertheless, TARP did its job. Today, thanks to a comprehensive and careful strategy to address the financial crisis, we are in a much stronger position to address our still very substantial remaining economic challenges.

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Both political parties deserve credit for these achievements—the successes of TARP resulted from bipartisan cooperation. Congress enacted the program at a time when the financial system was falling apart and on the verge of disaster. In that moment, leaders from both parties stood up, stood together, and did what was best for the country. It was unpopular, but necessary. And it worked, better than anyone could have predicted. As Secretary Geithner has stated, TARP was "one of the most effective crisis response programs ever implemented."

Chairman ISSA. Thank you.
Mr. Barofsky.

STATEMENT OF NEIL BAROFSKY

Mr. BAROFSKY. Chairman Issa, Ranking Member Cummings, members of the committee, it is a privilege and an honor to appear before you once again and to once again present to you our most recent quarterly report to Congress.

This past quarter has marked the 2-year anniversary of both TARP and SIGTARP. For SIGTARP, we have made great progress in striving to meet our goals of transparency, oversight, and enforcement. With this, our ninth quarterly report, along with 13 separate audits, they have helped to shine a light on some of the darkest areas of the financial crisis and the Government's response. They have also included important recommendations which, when implemented and adopted, have resulted in great savings for the taxpayer and preventing waste, fraud, and abuse.

Our Investigations Division has been similarly busy. We have been able to secure civil or criminal fraud charges against 45 different individuals, 12 different companies and, to date, 13 criminal convictions. We have also been able to either recover or prevent from loss of fraud more than $700 million, thereby assuring that SIGTARP as an agency will more than pay for itself. And with 142 ongoing criminal investigations, including those into executives at 64 different banks that either applied to or received TARP funds, we still have a lot more work to do.

For Treasury and TARP the results have been more mixed. While it is certainly good news, as Mr. Massad noted, that the estimates of TARP costs have declined, and significantly, it is not the whole story. And too often Treasury, in its statements and in its testimony, has too much of tunnel vision focus on the financial costs and the decline of those, obscuring the very significant and very real non-financial costs that will arise out of the Troubled Asset Relief Program.

First, it ignores the very significant wholesale damage to government credibility that has arisen from Treasury's mismanagement of parts of the TARP program. Too often these programs have been marked by loose compliance, failures in transparency, and questionable decisionmaking. And it is those very avoidable failures, as much as anything else that Treasury may point to, that account for some of the deep unpopularity of TARP.

The second cost is perhaps the most significant of TARP's legacy, the continued existence and the moral hazard associated with institutions that are still deemed too big to fail. When Secretary Paulson, in 2008, and then Secretary Geithner, in 2009, spoke to the financial markets and assured that they would not let any of our largest financial institutions fail and would use TARP to be backstop them, they did more than just reassure troubled markets; they sent a powerful message that these companies, these banks, would not be left to suffer the consequences of their own folly.

And as a result, and notwithstanding the passage of Dodd-Frank last summer, these institutions still enjoy an advantage over their smaller rivals, with enhanced credit ratings and cheaper access to credit and capital, as a result of that implicit Government guaranty. Indeed, in many ways TARP has helped mix that same toxic cocktail of implicit guaranties and distorted markets that led to the disasters at Fannie Mae and Freddie Mac.

TARP has also had mixed success in meeting the goals set for it by Congress, goals that were designed to address Main Street as well as Wall Street. And while I agree with Treasury that they have met the Wall Street goals, financial, they did help prevent a collapse of the financial markets, and that undoubtedly had a benefit not just for Wall Street, but for Main Street, TARP has not met the goals set for it by Congress for Main Street. And perhaps the most significant and specific Main Street goal of preserving home ownership, its failures there have had some of the most devastating consequences.

That effort, the Home Affordable Modification Program, has to date been a failure. With estimates that over the life of this program we are going to see probably well in excess of 10 million foreclosure filings on 10 million different families during the life of HAMP, when compared with the congressional oversight, a panel's recent estimate that no more than 700,000 or 800,000 permanent sustained modifications, hope is slipping away.

And Treasury's administration of this program gives little cause for optimism. They continue to refuse to adopt even the most basic metrics and goals and benchmarks to measure success. They appear to be afraid to rein in or impose penalties on the mortgage servicers, who everyone can agree performance on this program has been nothing short of abysmal. And, as a result, we continue to see spiraling downward participation quarter after quarter after quarter.

Mr. Chairman, ranking member, members of the committee, I thank you for this opportunity and I do look forward to answering any questions you may have.

[The prepared statement of Mr. Barofsky follows:]

SIGTARP | OFFICE OF THE SPECIAL INSPECTOR GENERAL FOR THE TROUBLED ASSET RELIEF PROGRAM

ADVANCING ECONOMIC STABILITY THROUGH TRANSPARENCY, COORDINATED OVERSIGHT AND ROBUST ENFORCEMENT

FOR OFFICIAL USE ONLY UNTIL RELEASED BY THE
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STATEMENT OF NEIL BAROFSKY

SPECIAL INSPECTOR GENERAL
TROUBLED ASSET RELIEF PROGRAM

BEFORE THE
HOUSE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

January 26, 2011

Chairman Issa, Ranking Member Cummings and Members of the Committee, I am honored to appear before you today to discuss the Office of the Special Inspector General for the Troubled Asset Relief Program's ("SIGTARP") Quarterly Report to Congress. This past quarter SIGTARP marked its second anniversary. In the time since its inception in December 2008, SIGTARP has had notable success in fulfilling its goals of transparency, oversight and enforcement. Through nine quarterly reports and 13 completed audits, SIGTARP has brought light to some of the darkest areas of the financial crisis and the Government's response to it, and has provided 68 recommendations to Treasury. Treasury's adoption of many of these recommendations has helped protect aspects of the Troubled Asset Relief Program ("TARP") against vulnerability to fraud, with potential losses to fraud unlikely to come even close to standard expectations for a Government program. Where fraud has managed to slip in, SIGTARP's Investigations Division has already produced outstanding results in bringing to justice those who have sought to profit criminally from TARP, with 45 individuals charged civilly or criminally with fraud, of whom 13 have been criminally convicted. SIGTARP's investigative efforts have helped prevent $555.2 million in taxpayer funds from being lost to fraud. And with 142 ongoing investigations (including 64 into executives at financial institutions that applied for and/or received TARP funding through TARP's Capital Purchase Program ["CPP"]), much more remains to be done.

Last quarter also marked the second anniversary for TARP. Now in its third year of operation, TARP remains a study in contrasts. On the financial side, TARP's outlook has never been better. Not only did TARP funds help head off a catastrophic financial collapse, but estimates of TARP's ultimate direct financial cost to the taxpayer have fallen substantially, from the Office of Management and Budget's ("OMB") August 2009 estimate of $341 billion to a November 2010 Congressional Budget Office ("CBO") estimate of just $25 billion. Indeed, with the recent closing of American International Group, Inc.'s ("AIG") recapitalization plan, there is a chance that TARP may break even or possibly turn a profit on one of its most controversial transactions, while General Motors Company's recent initial public offering demonstrates Treasury's ability to exit some of its most difficult investments. While Treasury's ultimate return on its investment depends on a host of variables that are largely unknowable at this time, TARP's financial prospects are today far better than anyone could have dared to hope just two years ago. At the same time, a tunnel-vision focus on the good financial news should not distract from the hard work still ahead, with more than $160 billion in TARP funding still outstanding and an additional $59.7 billion available to be spent, or from the careful and necessary assessment of TARP's significant, non-financial costs. Those costs include the damage to Government credibility that has plagued the program, as detailed in SIGTARP's October 2010 Quarterly Report, the failure of programs designed to help Main Street rather than Wall Street, and perhaps TARP's most significant legacy, the moral hazard and potentially disastrous consequences associated with the continued existence of financial institutions that are "too big to fail."

TARP and Too Big to Fail

Earlier this month, SIGTARP published the audit report "Extraordinary Financial Assistance Provided to Citigroup, Inc.," which examines a series of transactions over several months that resulted in the Government's remarkable bailout of one of the world's largest financial institutions. The report details how the Government assured the world in 2008 that it would use TARP to prevent the failure of any major financial institution and then demonstrated its resolve by standing behind Citigroup Inc., along with others such as AIG and Bank of America Corp. ("Bank of America"). Indeed, public statements by then-Secretary of the Treasury Henry Paulson in late 2008 and Treasury Secretary Timothy Geithner in early 2009 made clear that they were ready, willing, and able to use TARP funds to ensure that not one of the nation's largest banks would be permitted to fail. While these statements and actions succeeded in reassuring troubled markets, they also did much more: by effectively guaranteeing these institutions against failure, they encouraged future high-risk behavior by insulating the risk-takers who had profited so greatly in the run-up to the crisis from the consequences of failure, and gave an unwarranted competitive advantage, in the form of enhanced credit ratings and access to cheaper credit and capital, to institutions perceived by the market as having an implicit Government guarantee. In many ways, TARP has thus helped mix the same toxic cocktail of implicit guarantees and distorted incentives that led to disastrous consequences for the Government-sponsored enterprises (GSEs) — the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac").

Institutions such as Citigroup operate in an environment where size matters because the then-explicit and now implicit Government guarantee that they will not be allowed to fail results in a gross distortion of a normally functioning market, where an institution's creditors, shareholders, and executives bear the brunt of poor decisions, not the taxpayers. First, for executives at such institutions, the Government safety net provides the motivation to take greater risks than they otherwise would in search of ever-greater profits. This "heads I win, tails the Government bails me out" mentality promotes behavior that, while it may benefit shareholders and executives in the short term if the risks pay off, increases the likelihood of failure and, therefore, the possibility of another taxpayer-funded bailout. Second, an institution's "too big to fail" status has a dramatic impact on its creditors and other counterparties, which then gives it an advantage over its smaller competitors. Ratings agencies continue to give such institutions higher credit ratings based on the existence of an implicit Government backstop. Creditors, in turn, give those institutions access to debt at a price that does not fully account for the risks created by their behavior. Cheaper credit is effectively a subsidy, which translates into greater profits, which allows the largest institutions to become even larger relative to the economy and materially disadvantages smaller banks. The prospect of a Government bailout also reduces market discipline, giving creditors, investors, and counterparties less incentive to monitor vigilantly those institutions that they perceive won't be allowed to fail. In short, the continued existence of institutions that are "too big to fail" — an undeniable byproduct of former Secretary Paulson and Secretary Geithner's use of TARP to assure the markets that during a time of crisis that they would not let such institutions fail — is a recipe for disaster. These institutions and their leaders are incentivized to engage in precisely the sort of behavior that could trigger the next financial crisis, thus perpetuating a doomsday cycle of booms, busts, and bailouts.

The Dodd-Frank Act and Too Big to Fail

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act" or "Act"), signed into law by the President last July, was intended, in part, "to end 'too big to fail'" and "to protect the American taxpayer by ending bailouts." Secretary Geithner, testifying before the Congressional Oversight Panel ("COP") in June 2010, shortly before the Act's passage, said "The reforms will end 'too big to fail.'"[1] The Act's proponents cite several provisions as particularly important components of this effort. These include, among others, creation of the Financial Stability Oversight Council ("FSOC"), charged with, among other things, the responsibility for developing the specific criteria and analytic framework for assessing systemic significance; granting the Federal Reserve new power to supervise institutions that FSOC deems systemically significant; granting the Federal Deposit Insurance Corporation ("FDIC") new resolution authority for financial companies deemed systemically significant; requiring the development of "living wills" designed to assist in the orderly liquidation of such companies; and granting regulatory authority to set more stringent capital, liquidity, and leverage requirements and to limit certain activities that might increase systemic risk.

Whether these provisions, which rely heavily on the discretion and actions of the financial regulators, will ultimately be successful remains to be seen. First, many commentators, from Government officials to finance academics to legislators, have expressed concern that the Act does not solve the problem. For example, Kansas City Federal Reserve Bank President Thomas Hoenig has repeatedly expressed "doubt that our too-big-to-fail problem has been solved,"[2] noting in December 2010 that "after this round of bailouts, the five largest financial institutions are 20 percent larger than they were before the crisis. They control $8.6 trillion in financial assets — the equivalent of nearly 60 percent of gross domestic product. Like it or not, these firms remain too big to fail." Massachusetts Institute of Technology professor Simon Johnson argued in September 2010 that "there is nothing [in the Act] that ensures our biggest banks will be safe enough or small enough or simple enough so that in the future they cannot demand bailout — the bailout potential exists as long as the government reasonably fears global financial panic if such banks are allowed to default on their debts." Senators Sherrod Brown and Ted Kaufman, among others, have noted that "too big to fail" isn't just the United States' problem, but the world's, and have argued that by itself

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[1] Treasury Press Release, "Secretary of the Treasury Timothy F. Geithner Written Testimony before the Congressional Oversight Panel," 6/22/2010, www. treasury.gov/press-center/press-releases/Pages/tg754.aspx, accessed 1/20/2011.

[2] Federal Reserve Bank of Kansas City, "It's Not Over 'Til It's Over: Leadership and Financial Regulation," 10/10/2010, www.kansascityfed.org/speechbio/ hoenigpdf/william-taylor-hoenig-10-10-10.pdf, accessed 1/20/2010.

the Dodd-Frank Act cannot provide the *global* regulatory framework required to resolve incredibly complex mega-banks operating in scores of countries. Senator Kaufman and others have also questioned the wisdom of delegating so much responsibility to the very same regulators who performed so poorly in identifying the most recent crisis before it struck. Others, including Congressman Spencer Bachus and Speaker of the House John Boehner, have expressed concern that the Dodd-Frank Act's provisions, particularly those relating to designation and resolution, will "institutionalize" Government bailouts.[3]

Second, the new authorities in the Dodd-Frank Act are a work in progress — a tremendous amount of research and rule making by FSOC, FDIC, and a host of other regulators remains to be done. Their tasks will not be easy. Secretary Geithner told SIGTARP in December 2010, for example, that identifying institutions as systemically significant, one of the Act's premier mandates, "depends too much on the state of the world at the time," and that he believes "you won't be able to make a judgment about what's systemic and what's not until you know the nature of the shock." If the Secretary is correct, and regulators have difficulty properly identifying non-banks as systemically significant and therefore subject to the Act's restrictions, then the Act's effectiveness will undoubtedly be undermined. Even in the realm of the possible, the path regulators choose to take could make all the difference. FDIC Chairman Sheila Bair, for example, has argued that FSOC should use the Dodd-Frank Act's "living will" provisions as a tool to force companies to simplify their operations and shrink their size if necessary to ensure that orderly liquidation is possible:

> Under Dodd-Frank, the FDIC and the Federal Reserve wield considerable authority to shape the content of these [living will] plans. If the plans are not found to be credible, the FDIC and the Fed can even compel the divestiture of activities that would unduly interfere with the orderly liquidation of these companies. The success or failure of the new regulatory regime will hinge in large part on how credible those resolution plans are as guides to resolving those companies. And let us be clear: we will require these institutions to make substantial changes to their structure and activities if necessary to ensure orderly resolution. *If we fail to follow through, and don't ensure that these institutions can be unwound in an orderly fashion during a crisis, we will have fallen short of our goal of ending Too Big to Fail.* (Emphasis added.)[4]

If either Chairman Bair's position prevails, and the Dodd-Frank Act is used to simplify and shrink large institutions as necessary, or if some other effective regime is adopted along with similar provisions being

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3 Congressman Bachus Statement on Dodd-Frank Regulatory Bill, 6/30/2010, http://bachus.house.gov/index.php?option=com_content&task=view&id =1034&Itemid=108, accessed 1/20/2010; House Financial Services Committee, "What's REALLY in the Dodd-Frank Financial Reform Bill? Lots of Bailouts," no date, http://financialservices.house.gov/singlepages.aspx?NewsID=1730, accessed 1/20/2010.

4 FDIC, "Remarks by FDIC Chairman Sheila C. Bair; The Financial Crisis and Regulatory Reform to the AICPA - SIFMA National Conference on the Securities Industry; New York, NY," 11/17/2010, www.fdic.gov/news/news/speeches/chairman/spnov1710.html, accessed 1/20/2011.

implemented internationally, then perhaps in the long run the Act will have a chance to end "too big to fail." In short, the proof will be in the pudding, and the pudding is still being cooked.

Finally, even if all the required regulations are properly calibrated and fully implemented, the ultimate success of the Dodd-Frank Act depends to a certain degree on market perception. As long as the relevant actors (executives, ratings agencies, creditors and counterparties) believe there will be a bailout, the problems of "too big to fail" will almost certainly persist.

Federal Reserve Chairman Ben Bernanke, in a speech to community bankers in March 2010, summed up the problem this way:

> The costs to all of us of having firms deemed too big to fail were stunningly evident during the days in which the financial system teetered near collapse. But the existence of too-big-to-fail firms also imposes heavy costs on our financial system even in more placid times. Perhaps most important, if a firm is *publicly perceived* as too big, or interconnected, or systemically critical for the authorities to permit its failure, its creditors and counterparties have less incentive to evaluate the quality of the firm's business model, its management, and its risk-taking behavior. As a result, such firms face limited market discipline, allowing them to obtain funding on better terms than the quality or riskiness of their business would merit and giving them incentives to take on excessive risks. (Emphasis added.)

In other words, unless and until institutions currently viewed as "too big to fail" are either broken up so that they are no longer perceived to be a threat to the financial system, or a structure is put in place that gives adequate assurance to the market that they will be left to suffer the full consequences of their own recklessness, the prospect of more bailouts will continue to fuel more bad behavior with potentially disastrous results. Thus far, the Dodd-Frank Act appears not to have solved the perception problem. The largest institutions continue to enjoy access to cheaper credit based on the existence of the implicit Government guarantee against failure. Indeed, earlier this month one of the world's most influential credit rating agencies, Standard & Poor's ("S&P"), announced its intention to make permanent the prospect of Government support as a factor in determining a bank's credit rating, a radical change from pre-TARP practice. According to S&P, "We believe that banking crises will happen again. We expect this pattern of banking sector boom and bust and government support to repeat itself in some fashion, *regardless of governments' recent and emerging policy response*."(Emphasis added.) S&P intends to "recognize government support throughout the cycle and not just during a crisis," and has described the U.S. Government's likelihood of support for a systemically important bank as "moderately high." In short, S&P is telling the market that it does not believe that the Dodd-Frank Act has yet ended the problems of "too big to fail," and given the discounts that such institutions continue to receive, the market seems to be listening.

Secretary Geithner, in a December 2010 interview with SIGTARP, likewise acknowledged that despite the "better tools" provided by the Dodd-Frank Act, "[i]n the future we may have to do exceptional things again" if we face a crisis as large as the last one. To the extent that those "exceptional things" include taxpayer-supported bailouts,* his acknowledgement serves as an important reminder that TARP's price tag goes far beyond dollars and cents, and that the ultimate cost of TARP will remain unknown until the next financial crisis occurs.

HAMP

As SIGTARP discussed in its October 2010 Quarterly Report, after two years, TARP's Main Street goals of "increas[ing] lending," and "promot[ing] jobs and economic growth" had been largely unmet, but it is TARP's failure to realize its most specific Main Street goal, "preserving homeownership," that has had perhaps the most devastating consequences. Treasury's central foreclosure prevention effort designed to address that goal — the Home Affordable Modification Program ("HAMP") — has been beset by problems from the outset and, despite frequent retooling, continues to fall dramatically short of any meaningful standard of success. Indeed, even the "good news" of falling estimates for TARP's cost is driven in part by the ineffectiveness of HAMP and related programs, which provide for TARP funded grants and incentives. In its most recent TARP cost estimate, CBO cited diminished expectations for participation in TARP's housing programs in lowering its anticipated cost, estimating that all of Treasury's foreclosure programs combined will spend only $12 billion out of an allocation of approximately $46 billion. While Treasury continues to insist that HAMP will expend the full allocation of TARP funding, if CBO is correct then considerable TARP funds that could have been made available through better program design and administration may well never reach the distressed homeowners on Main Street whom Congress intended to benefit from TARP just as much as the rebounding Wall Street financial institutions.

Today, HAMP appears to be under siege, with a chorus of criticisms from all points on the ideological spectrum growing more insistent and calls for termination or a dramatic restructuring gaining traction. The numbers are remarkably discouraging. According to RealtyTrac data, a record 2.9 million homes received foreclosure filings in 2010, up from 2.8 million in 2009, and 2.3 million in 2008. RealtyTrac predicts that filings will be 20% higher in 2011, crossing the 3 million threshold. Similarly, the firm's data reveal that bank repossessions continue to increase, from just under 820,000 in 2008 to over 918,000 in 2009 to 1.05 million in 2010. In contrast, the number of permanent mortgage modifications under

* It was apparent to SIGTA RP from the context of the interview, including the reference to doing something exceptional "again" in the face of a future financial crisis that Secretary Geithner was referring to the possibility of future bailouts. While Treasury has not disputed the quotation attributed to Secretary Geithner or the context in which it was presented in SIGTA RP's audit report "Extraordinary Financial Assistance to Citigroup, Inc.," a Treasury spokesperson has reportedly suggested that Secretary Geithner was actually referring to using the tools of the Dodd-Frank Act to wind down an institution.

HAMP remains anemic — there were just under 522,000 ongoing permanent modifications as of December 31, 2010, with approximately 238,000 of those funded by and attributable to TARP.

The remaining were funded outside of TARP by the GSEs. A combined total of more than 792,000 trial and permanent modifications have been cancelled, with more than 152,000 trial modifications still in limbo. These permanent modification numbers pale in comparison not only to foreclosure filings, but also to Treasury's initial prediction that HAMP would "help up to 3 to 4 million at-risk homeowners avoid foreclosure" "by reducing monthly payments to sustainable levels."

While Treasury continues its astonishing silence by refusing to provide an estimate, goal, or projection of the total number of permanent modifications it expects to complete and maintain, in December 2010, the Congressional Oversight Panel ("COP") estimated that, if current trends hold, HAMP will result in only 700,000 to 800,000 effective permanent modifications.[5] Unfortunately, COP's dispiriting projection appears all too reasonable, with participation trends getting worse and worse with each passing quarter. For example, HAMP produced only a net increase of slightly more than 18,000 permanent modifications per month over the most recent quarter, down 35% from the quarter before that, with the TARP portion yielding only approximately 10,000 modifications per month. And even those who do obtain permanent modifications still remain in danger of redefaulting on their loans. That danger persists notwithstanding Treasury's attempt to launch two programs funded by more than $12 billion in TARP funds to address one of the leading indicators of redefault, underwater mortgages in which borrowers owe more than their homes are worth. Treasury reported to SIGTARP that FHA Short Refinance, launched on September 7, 2010, had only resulted in 15 refinances as of December 31, 2010, and was unable to report any information about homeowner participation in its Principal Reduction Alternative program, which was available to servicers in June 2010 but formally launched on October 1, 2010.

As SIGTARP and the other oversight bodies have chronicled in audits and reports, HAMP's failure to have a material impact on the foreclosure crisis has many causes, starting with a rushed launch based on inadequate analysis and without fully developed rules, which has required frequent changes to program guidelines and caused unnecessary confusion and delay.[6] Perhaps most fundamentally, Treasury has steadfastly refused to adopt meaningful goals and benchmarks for HAMP despite consistent and repeated recommendations from SIGTARP and the other TARP oversight bodies — COP and the Government Accountability Office ("GAO"). Rather than develop meaningful goals and metrics for the program, which would allow meaningful oversight, promote accountability, and provide guidance for useful

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[5] Congressional Oversight Panel, "December Oversight Report," 12/14/2010, http://cop.senate.gov/documents/cop-121410-report.pdf, accessed 1/20/2010.

[6] SIGTARP audit report, "Factors Affecting the Implementation of the Home Affordable Modification Program," 3/25/2010, www.sigtarp.gov/reports/ audit/2010/Factors_Affecting_Implementation_of_the_Home_Affordable_Modification_Program.pdf, accessed 1/21/2011; GAO, "Troubled Asset Relief Program-Home Affordable Modification Program Continues to Face Implementation Challenges," 3/25/2010, www.gao.gov/new.items/d10556t.pdf, accessed 1/20/2011; Congressional Oversight Panel, "Evaluating Progress of TARP Foreclosure Mitigation Programs," 4/14/2010, http://cop.senate.gov/ reports/library/report-041410-cop, accessed 1/21/2011.

change, Treasury instead has regularly changed its criteria for success, citing at different times the total number of trial modification offers extended to borrowers, regardless of whether they were accepted, and then the total number of trial modifications, regardless of whether they became permanent, which far fewer than half have actually done. More recently, after SIGTARP and others pointed out the destructive impact of many failed trial modifications, Treasury has retreated to arguing that a benefit of HAMP has been its impact on private modifications that occur outside of the HAMP program. This too is a questionable measure of success. While Treasury may deserve some credit for having had a positive, if inadvertent, impact on industry practice, according to the December 2010 COP report, "when pressed, Treasury acknowledges that there is no clear causal link between HAMP and proprietary modifications," which often include more unfavorable terms for the borrower, are more likely to redefault, and permit broader imposition of fees.[7] Regardless of Treasury's stated criteria, however, while HAMP may provide a significant benefit for those who are fortunate enough to benefit from a sustainable permanent modification, given the current pace of foreclosures, HAMP's achievements look remarkably modest, and hope that this program can ever meet its original expectations is slipping away.

Servicers

One of the great frustrations with HAMP, as expressed by legislators, consumer advocates, oversight bodies, and even Treasury itself, has been the abysmal performance of loan servicers, which not only operate as the point of contact for distressed homeowners seeking to participate in the program but also administer the loans on behalf of investors. Anecdotal evidence of their failures has been well chronicled. From the repeated loss of borrower paperwork, to blatant failure to follow program standards, to unnecessary delays that severely harm borrowers while benefiting servicers themselves, stories of servicer negligence and misconduct are legion, and the servicers' conflicts of interest in administering HAMP — they too often have financial interests that don't align with those of either borrowers or investors — have been described both by SIGTARP and COP.

Treasury's reaction to servicer non-compliance with the requirements of HAMP and its related programs appears to be driven largely by the fear that forcing servicers to comply with their contractual obligations will drive them away from HAMP. Despite nearly daily accounts of errors and more serious misconduct, Treasury reports that it has yet to impose a financial penalty on, or claw back incentives from, a single servicer for any reason other than failure to provide data. Treasury recently told COP that since participation by the servicers is purely voluntary, "our abilities to enforce specific performance are extremely limited" and "aggressive enforcement [is] difficult." This same fear of servicer withdrawal was offered by Treasury in response to SIGTARP's recommendation that Treasury reconsider its decision to make its Principal Reduction Alternative program entirely voluntary, and Treasury continues to operate

[7] Congressional Oversight Panel, "December Oversight Report: A Review of Treasury's Foreclosure Prevention Programs," 12/14/2010, http://cop.senate. gov/documents/cop-121410-report.pdf, accessed 1/20/2011.

an appeals system that leaves the ultimate decision of whether to approve or deny a modification squarely with the servicer. At some point, Treasury needs to ask itself what value there is in a program under which not only participation, but also compliance with the rules, is voluntary. TARP's oversight bodies — SIGTARP, COP, and GAO — have all called on Treasury to get tough on servicers. Without meaningful servicer accountability, the program will continue to flounder. Treasury needs to recognize the failings of HAMP and be willing to risk offending servicers. And if getting tough means risking servicer flight, so be it; the results could hardly be much worse.

As HAMP approaches its second anniversary, the time has come for Treasury to set realistic and meaningful goals for its collective foreclosure prevention efforts, even though those goals will necessarily be far more modest than those envisioned when the program was announced. Doing so, in conjunction with a thorough reevaluation of its failing programs and imposing discipline on servicers with real penalties for violating program guidelines, will maximize the potential benefits for struggling homeowners going forward.

PROGRAM UPDATES AND FINANCIAL OVERVIEW

TARP consists of 13 implemented programs. Because TARP investment authority expired on October 3, 2010, no new obligations may be made with TARP funds. However, dollars that have already been obligated to existing programs may still be expended. As of October 3, 2010, $474.8 billion had been obligated across TARP to provide support for U.S. financial institutions, the automobile industry, the markets in certain types of asset-backed securities, and homeowners. Of the obligated amount, $389.8 billion had been spent as of December 31, 2010, leaving $80.0 billion in five programs remaining as obligated and available to spend. When including the January 14, 2011, recapitalization of AIG, $410.1 billion had been spent and $59.7 billion still remains available to spend. As of December 31, 2010, 148 TARP recipients had paid back all or a portion of their principal or repurchased shares, for an aggregate total of $235.4 billion of repayments and a $5 billion reduction in exposure to possible future liabilities, leaving $149.4 billion in TARP funds outstanding (not including an additional $20.3 billion in TARP funds expended in connection with the AIG recapitalization on January 14, 2011).

In addition to the principal repayments, Treasury has received interest and dividend payments on its investments, as well as revenue from the sale of its warrants. As of December 31, 2010, the Government had received $35.2 billion in interest, dividends, and other income, including $10.2 billion in proceeds that had been received from the sale of warrants and preferred stock received as a result of exercised warrants. At the same time, some TARP participants have missed dividend payments: among CPP participants, 155 have missed dividend or interest payments to the Government, although some of them made the payments on a later date. As of December 31, 2010, there were $276.4 million in unpaid CPP dividends.

OVERSIGHT ACTIVITIES OF SIGTARP

SIGTARP actively strives to fulfill its audit and investigative functions. Since its inception, SIGTARP has issued 13 audit reports, including two that have been issued since the end of the last quarter. In addition to "Extraordinary Financial Assistance Provided to Citigroup, Inc.," discussed earlier, SIGTARP also issued the audit report, "Selecting Fund Managers for the Legacy Securities Public-Private Investment Fund." This document, released on October 7, 2010, discussed the process for selecting fund managers to participate in the Public-Private Investment Program. Detailed discussion of these audits is included in Section 1 of SIGTARP's Quarterly Report: "The Office of the Special Inspector General for the Troubled Asset Relief Program," which also discusses SIGTARP's announcement of three new audit projects during the past quarter, as well as 10 other previously announced audits in process.

SIGTARP's Investigations Division has developed into a highly sophisticated white-collar investigative agency. As of December 31, 2010, SIGTARP had 142 ongoing criminal and civil investigations, many in partnership with other law enforcement agencies. Since SIGTARP's inception, its investigations have delivered substantial results, including:

- asset recoveries of $151.8 million, with an additional estimated savings of $555.2 million through fraud prevention
- civil or criminal actions against 45 individuals to date, including 22 senior officers (Chief Executive Officers, owners, founders, or senior executives) of their organizations
- criminal convictions of 13 defendants for fraud
- civil cases naming 12 corporate entities as defendants

Although much of SIGTARP's investigative activity remains confidential, over the past quarter there have been significant public developments in several of SIGTARP's investigations. A description of recent developments, including those relating to SIGTARP investigations into the Shmuckler Group, LLC, the Residential Relief Foundation, Park Avenue Bank, Omni National Bank, and Nations Housing Modification Center, are in Section 1: "The Office of the Special Inspector General for the Troubled Asset Relief Program" of SIGTARP's Quarterly Report.

SIGTARP RECOMMENDATIONS ON THE OPERATION OF TARP

One of SIGTARP's oversight responsibilities is to provide recommendations to Treasury so that TARP programs can be designed or modified to facilitate effective oversight and transparency and to prevent fraud, waste, and abuse. Section 4 of SIGTARP's Quarterly Report: "SIGTARP Recommendations" includes new recommendations, provides updates on existing recommendations, and summarizes implementation measures for previous recommendations.

This quarter, Section 4 includes a follow-up discussion of recommendations regarding the implementation of the Small Business Lending Fund ("SBLF") that were first published in SIGTARP's October 2010 Quarterly Report. SIGTARP examines Treasury's response to three recommendations designed to ensure the soundness of TARP recipients that may seek to enter SBLF and to prevent TARP recipients from receiving windfall benefits through SBLF without any relevant increase in lending. While Treasury "generally agrees with and is implementing" SIGTARP's recommendation that all institutions applying for SBLF investment undergo a new financial health analysis, it has rejected the remaining two SIGTARP recommendations. Those recommendations were designed to prevent SBLF from providing windfall benefits to existing CPP participants who refinance to SBLF and to reduce the risk of potentially needless harm to taxpayers. Section 4 reviews Treasury's responses in detail and sets forth SIGTARP's discussion of those responses.

Additionally, Section 4 provides two new SIGTARP recommendations related to the recapitalization of Treasury's CPP investments, or their refinancing into SBLF. In the past, as part of its due diligence on CPP institutions seeking to recapitalize, Treasury consulted with SIGTARP in advance of such action in order to determine whether such institutions were the subject of an ongoing criminal investigation by SIGTARP. Doing so gave Treasury the opportunity to avoid shifting the risk of loss from fraud onto private investors who might participate in the restructuring and to examine with particular care the information provided by the CPP institution. Recently, it appears that Treasury has stopped identifying these candidates to SIGTARP in advance of a public announcement. As detailed in Section 4, SIGTARP recommends that Treasury return to prior practice. In addition, because similar concerns will arise when CPP recipients seek to refinance into the SBLF program, and at the same time seek additional taxpayer dollars, SIGTARP recommends that Treasury should similarly consult with SIGTARP to learn whether the entity is the subject of an ongoing investigation. SIGTARP provided a draft of these recommendations to Treasury on January 14, 2011. As of the drafting of this testimony, Treasury had not responded.

Chairman Issa, Ranking Member Cummings and Members of the Committee, I want to thank you again for this opportunity to appear before you, and I would be pleased to respond to any questions that you may have.

If you are aware of fraud, waste, abuse, mismanagement or misrepresentations affiliated with the troubled asset relief program, please contact the SIGTARP Hotline.

Via Online: WWW.SIGTARP.GOV
Via Toll Free Phone: 877-SIG-2009
Via Fax: 202-622-4559

Via Mail: Hotline, Office of the SIGTARP
1801 L St., N.W.
Washington, D.C. 20220

Chairman ISSA. I thank the gentleman and I thank him for his pinpoint accuracy of 5 minutes.

I now recognize myself for 5 minutes.

Mr. Massad, since you are here on behalf of Treasury as the person most knowledgeable, can you explain to us the Secretary's statement on December 2010, on the subject of TARP and related bailouts, when he said in the future we may have to do exceptional things again if we face a shock that large. You just don't know what is systemic. I repeat, you just don't know what is systemic and what is not until you know the nature of the shock.

Does that mean that the Secretary expects that if a housing crisis occurs again, or some other shock—we are not talking about an external force, but some other shock to the community—that we still have systemic risk, too big to fail, and the Government will come in and bail out the large and allow the small to fail?

Mr. MASSAD. Mr. Chairman, what the statement means, in my view, what I believe the Secretary was saying, was that we cannot predict what the future issues will be in terms of risks to our system.

Chairman ISSA. But isn't that exactly what Dodd-Frank and all these other legislations have done? We were supposed to eliminate too big to fail; systemic risk was supposed to be managed by an analysis, if you will, a vetting of whether entities were robust enough now and in the future; and it is the reason that some companies are still around and some were folded. Isn't that true?

Mr. MASSAD. You are correct, Mr. Chairman, that is Dodd-Frank's purpose, and that is what we are implementing. Dodd-Frank, after all, was passed 6 months ago. There is a lot of work to do to implement it, and it gives us the tools to——

Chairman ISSA. Right, but the Secretary said this well after Dodd-Frank. For example, we have had Bank of America here before us on multiple occasions. We have rolled Countrywide into B of A; we have rolled Merrill Lynch into B of A. I am not for breaking up companies or taking a heavy hand, but if Bank of America is too big to fail, then shouldn't we be insisting that they be, and I am not suggesting this, but shouldn't we be suggesting that they find a way to not be too big to fail in whatever kind of divestitures they need, rather than putting them in that category, as the IG said, who enjoy less expensive costs of assets because, in fact, they are effectively back-staffed by the Federal Government?

Mr. MASSAD. I think Dodd-Frank gives us the tools to regulate any financial institution, regardless of its size, that poses systemic risks and it gives us the tools to shut down such financial institutions. So I think it gives us precisely the tools you are talking about.

If I can respond more broadly, I think the concerns that Mr. Barofsky raised are obviously those that animated the Congress in passing Dodd-Frank. Those are the very issues that Congress debated in passing Dodd-Frank.

Chairman ISSA. Well, as somebody who was on the conference for Dodd-Frank and somebody who has been there all along, Dodd-Frank was not altogether that bipartisan, as you can imagine. And I appreciate the fact that it can shut down entities after the fact; it has a heavy hand to determine who is a financial entity. Perhaps the next time General Motors gets in trouble, we will shut them down as a financial entity rather than save them as somehow a bank.

Moving on to HAMP, as the IG report says pretty thoroughly, we cannot score success by simply getting our money back from what was essentially loans to solvent companies; we have to look at the money we won't get back and the suffering of people who won't get a loan modification if they can't afford a home or an elegant exit that will not destroy the neighborhoods as we seek somebody who can afford it.

I have December 31, 2010 results, and I would like you to comment on them, Mr. Barofsky. The goal of HAMP, three to four million loans; permanent modifications as of that date, roughly half a million, $521,000; modifications canceled almost $800,000. Would you please give me your view of HAMP based on those figures and a trend that continues after multiple hearings?

Mr. BAROFSKY. It is remarkably dispiriting. This was the program that was supposed to help Main Street. I mean, when TARP was originally enacted, when you, the Congress, gave Treasury the $700 billion, the original idea was that Treasury was going to buy toxic assets, which were largely mortgage-related assets. And the idea of including a goal of preserving home ownership in the statute was to address the fact that Treasury was going to own so many of these mortgages that they be able to do these modifications themselves, being able to have that impact on Main Street.

Instead, we have a program, and the numbers that you just indicated, it is just not working. Out of the $50 billion originally allocated, now about $45 billion, only $1 billion has been spent. And I hesitate to use the word only and billion in the same sentence, but the numbers are—we are running out of hope. There is no way we are going to ever get close to the three to four million that was the original expectations of this program.

But even more frustrating is that Treasury will not give us its expectations. They must know what their run rate is, what they expect the total number to be. They must have a goal. And if they don't have a goal, well, they need to have one. We can't fix this program until we have very specific benchmarks as to what the program is trying to accomplish of keeping people in their homes. Not people who get trial modifications that fail, which was one of the benchmarks that have been used; not the number of people who get offers for trial modifications. How many people are going to get modifications that are truly permanent and keep them in their homes?

Chairman ISSA. I thank the gentleman. My time has expired.

I recognize a member of this panel who has a deep interest in those modifications becoming permanent, the ranking member, Mr. Cummings.

Mr. CUMMINGS. Thank you very much, Mr. Chairman.

Mr. Massad and Mr. Barofsky, the title of today's hearing is Bailouts and the Foreclosure Crisis. On the first issue we have some encouraging news today on TARP and its outlook for American taxpayers. The SIGTARP report issued this morning has increasingly favorable assessment of TARP's financial successes, is that right, Mr. Barofsky?

Mr. BAROFSKY. That is absolutely correct.

Mr. CUMMINGS. And here is what it says,"On the financial side, TARP's outlook has never been better. Not only did TARP funds help head off a catastrophic financial collapse, by estimates of TARP's ultimate direct financial costs to the taxpayer have fallen substantially. While Treasury's ultimate return on its investment depends on a host of variables that are largely unknowable at this time, TARP's financial prospects are today far better than anyone could have dared hope just 2 years ago."

This is great news for the American taxpayer, but the report correctly warns that there is still hard work ahead, and it is important that we continue strong oversight. I have long demanded stringent oversight of the TARP program, a program proposed by President Bush in 2008 and enacted after significant improvements by Congress. I previously requested, gentlemen, that SIGTARP audit the hundreds of millions of dollars AIG expended on bonuses. I also led 26 of my colleagues in requesting that SIGTARP audit the payments made to AIG's counterparties.

That said, I am very concerned about the serious allegations of abuse by the mortgage service industry. Today's SIGTARP report calls their performance abysmal and describes nearly daily accounts of errors and more serious misconduct. The SIGTARP report also says this, "Anecdotal evidence of their failures has been well chronicled, from the repeated loss of borrower paperwork—and my constituents tell me about that—to the blatant failure to follow program standards, to unnecessary delays that severely harm borrowers while benefiting servicers themselves. Stories of servicer negligence and misconduct are legion."

Mr. Chairman, we cannot do a comprehensive examination of the foreclosure crisis without hearing from the industry. That is why I sent a letter on December 21st asking you to hold the committee's first hearing on the widespread utilization of flawed and fraudulent practices throughout the mortgage industry. This has been my No. 1 priority, as you said, and I assumed that we would move forward. It is the same reason I sent you another letter on Monday asking that you add an industry witness. I understand that you were not prepared to do that at this time and I understand that.

So, Mr. Chairman, and to our witnesses, let me go to you, Mr. Barofsky. The servicers, what are you all doing about them? I mean, Government has a role, the servicers have role, and I am just wondering what is happening with that.

And I ask you the same thing, Mr. Massad. And be brief.

Mr. BAROFSKY. Well, at SIGTARP we exercise our jurisdiction as we can, and our one area of jurisdiction over the servicers is, one, to investigate them if there is any criminal conduct, and we do have ongoing investigations in that area. The second thing we can do is use our audit function to do reviews of the servicers, and we have that ongoing as well; we are doing a review of their performance under the net present value test and other aspects of their performance.

What we cannot do is what Treasury can do, which is wield a big stick, as well as the carrots that it offers the servicers, and impose significant, tough financial penalties, because that is where we will hit them where it hurts. We have to keep this program from being voluntary not just in participation for the servicers, but in compliance as well.

Mr. CUMMINGS. Well, that leads me right to you, Mr. Massad. What are we doing with regard to the servicers? Because there have been some horrendous stories about what servicers have been doing. And what impact do they have on these numbers?

Mr. MASSAD. Congressman Cummings, I agree that the servicer performance has been abysmal, and that is something that we have been trying to fix. Let me first make clear this is a voluntary program. Congress didn't give us the tools to impose fines, as Mr. Barofsky is suggesting. What we have is the ability to withhold payment when they enter a permanent modification. A lot of the problem was we couldn't get them to get the permanent modifications done. So we work with them to change their performance.

Now, there are a number of other things that are going on in terms of the performance of the servicers. There is an interagency task force that is looking at all the things they have done wrong in foreclosures and there is a lot of talk of having some sort of national servicing standards, which may well be something we need. We can't, through HAMP, change the entire industry's behavior; this is a model. This is an industry that is broken. It didn't work.

Mr. CUMMINGS. Well, can you tell me this, as my time runs out? Is the Justice Department involved in anything that you are doing?

Mr. MASSAD. Yes, they are. They are involved in the interagency task force, as are all the Federal bank regulators, and there is a lot of work being done on what types of reforms are needed. There is also work being done by the FHFA in terms of changing the basic economic structure of the business, because they simply weren't prepared for this crisis and aren't able to deal with people.

Nevertheless, I think we have to remember that HAMP has achieved over half a million modifications. These are people that make $50,000 a year. So to sort of write it off and say, well, it is a failure I think is not really appropriate.

Now, the reason we haven't reached three to four million is basically we have eligibility standards, and the pool today of the people that are eligible is about $1½ million. What are those eligibility standards? We don't help people who make enough money that they don't need Government help. We don't help people who have million dollar mansions. We don't help people who have vacation homes. So when you go through that and you realize that is the eligible population, we have actually reached a lot of them. We are continuing to reach a lot of them. We had 1,000 people turn out for an event in Las Vegas.

So while we have tried to incorporate most of Mr. Barofsky's suggestions about the program, other than perhaps the one that he said we should fingerprint people or thumb print people before they get a mod, which we declined to do because we didn't feel that was appropriate, I think the program is actually helping a lot of people.

Mr. CUMMINGS. Thank you, Mr. Chairman. I see my time has expired.

Chairman ISSA. I thank the gentleman.

The gentleman from Ohio, Mr. Turner, is recognized for 5 minutes.

Mr. TURNER. Thank you, Mr. Chairman.

Gentlemen, thank you for being here and thank you for addressing these really important issues that we have. You know, I think both of you get a sense of the anger, really, of the American people, but also of the sadness of the issues that we are dealing with. You know, when we look at the New York Times yesterday reported that the financial crisis inquiry commission issued its report and there is a quote in there that I think is important in the context of what we are doing today, and it says the greatest tragedy would be to accept the refrain that no one could have seen this coming and that nothing could have been done. If we accept this notion, it will happen again.

What is sad is that, as we approach this and we look at what Treasury was doing as this crisis was unfolding, these things were knowable. I know I and many other Members of Congress were sounding the alarm of the mortgage foreclosure crisis, what was happening in our neighborhoods, what was happening in our communities, and understanding that capital had to be being lost as families were losing their economic future and their homes. And when you look at TARP and what is happening and how it is progressing—and I can't understand how Treasury can claim its successes when it has had so many undefined executions.

I voted against TARP, and I voted against TARP because I am from Ohio, ground zero for the mortgage foreclosure crisis. When they came and said they were going to be buy toxic assets and that these were going to have value, I knew they did not because I have walked these neighborhoods; I have talked to the families who have lost their homes. And the short TARP bill was not defined.

As you have said, Mr. Barofsky, and I greatly appreciate, that you not only look at what you are trying to unwind, but what they started with. This was a very undefined bill, a very undefined process, and I think there are billions that have been lost. I am very concerned about the HAMP program because if we look to what the Commission had said, that this was avoidable, that means that families were taken advantage of, and that means families were taken advantage of and lost their financial future.

And HAMP came forward as supposedly a Government answer that is going to help them, that is going to say we recognize that there was a Federal issue here and as the banks, all the people who, due to their greed, had perpetrated this, we were going to step in and help them. But it is not helping them and, Mr. Barofsky, I want to thank you for the detail that you provide us.

When you get these final numbers and do the division, we are going to have spent an unbelievable amount for each of the loan modifications that occurred while doing nothing to stop the record foreclosures that are still occurring. So, first off, Mr. Barofsky, I think, when we look at the ultimate numbers, we are going to want to figure out what percentage of these people who did ultimately get loan modifications could have gotten them in the markets, meaning that there was no subsidy that would have been needed; two, how many of these are going to fail anyway because those are lost dollars also; and then what are the per unit costs in the end.

Could you speak to that for a moment, as to how we are going to be able to then actually assess what was spent? We can already tell that it is a failure, and thank you for your words of that, but how are we going to assess the waste?

Mr. BAROFSKY. Well, I think one of the good news aspects of the HAMP program, to the extent that there is good news, and it is reflected in CBO's loss estimate, is that the program won't spend even close to the amount of money that is allocated for it. Money only gets spent when there is actual success.

So the remarkably low numbers of modifications means that a remarkably small amount of money will be spent. And that is why we have only had—and, as I said, I hesitate to use the word only—it has only been a billion dollars out of the 45 that has actually been spent so far.

So to the extent that there is good news, it is that it will not cost the taxpayer anywhere close to the allocated amounts. But, of course, that distinction really bears that any type of claim of success for the remarkably modest numbers of modifications that are coming from the program don't match up with what was originally intended.

And the advantage of not having any real goals, real meaningful goals or benchmarks is you can claim success wherever you want and say, hey, that is a success. And I do not mean in any way to demean or say that this program isn't very important to those people who are enjoying it and have the benefit of these important sustainable permanent modifications in any way, but I also think the idea that the reason why there aren't more is because there are millionaires living in mansions and that is why. There are a lot of people out there who are struggling very, very hard who could benefit from these modifications.

Mr. TURNER. Mr. Massad, I believe that the mortgage foreclosure crisis, when it is ultimately analyzed, will turn out to be the largest theft in history, and it occurred while Treasury had oversight of both financial markets and the issues affecting these homeowners. And now we have TARP and Treasury is involved with this, and we have the SIGTARP looking at it and saying that you are still managing this without measurable outcomes and are not being very forthcoming in how the program is being evolved. How can we trust what Treasury is doing in this?

Mr. MASSAD. I am happy to respond to that, Congressman. First of all——

Mr. TURNER. If you could do so briefly.

Mr. MASSAD. Sure. As Mr. Barofsky noted, we only pay money if there is a permanent modification entered into, if we actually help someone enter into a permanent modification, and we only pay for as long as that modification continues. There is a built-in taxpayer protection element to this.

So your question about unit cost is a very good question, sir, and, in fact, it is structured so that it is a unit cost program here. We won't spend all the money if we don't enter into enough modifications. And that money won't be spent for anything else; it will go back to pay down the debt. That is No. 1.

No. 2, as we said, the eligibility criteria here I think are another way that we protect taxpayers, because we only pay for people that we think are greatly in need.

As to your overall question here on the mortgage crisis, obviously there is a lot of study of this. The FDIC released its report today and I think it noted that there is blame to go around in a lot of places. I think we must remember TARP was just set up to provide the resources to stabilize the system; it didn't change the regulatory structure. We now have Dodd-Frank, which gives us new tools to regulate the financial industry so as to prevent this type of problem in the future.

Chairman ISSA. Thank you, Mr. Massad.

The Chair now recognizes the former chairman of the committee, longstanding member of the committee, Mr. Towns of Brooklyn, New York.

Mr. TOWNS. Thank you very much, Mr. Chairman.

Let me first thank both of you for being here. You know, I get the feeling that we are sort of blaming each other, and that bothers me because people are losing their homes. I wish you could just come and spend 1 day in my office and just listen to people who are coming in and the stories that they are telling. I mean, some of the things they are saying is the fact that they made an application, all of a sudden the application is lost; they call and they say, no we never received your papers, when they actually presented the papers.

And then the other one, which is really one that they are saying that is really becoming a problem is that when they call back the third or fourth time, the person no longer works here, so you need to find out who you were dealing with. And, of course, if the person is no longer there, how can you find anything?

And I noticed you indicated, Mr. Massad, that the Congress didn't give you the power, and I understand that as well, but what can we do now to fix the situation that we are in? I mean, this is a crisis, and I am hoping that—I want to join you, ranking member, in asking for a foreclosure hearing where we can bring people in and let them tell their stories, because for some reason I don't think that the message is getting out in terms of the seriousness of this situation.

Mr. MASSAD. Congressman, I agree with your concern. I think you are absolutely right. We have tried to do what we can through HAMP to put in a lot of borrower protections. For example, we have required the servicers, if you are evaluating someone for HAMP, you can't foreclose on them. There are a number of other protections we have put in. We have put in call centers, escalation centers, and a lot of the calls we get actually are for people who aren't even eligible for HAMP, bu we try to help them.

I think in terms of the overall industry, a lot of attention needs to be paid to this, and I think a lot of work is going on, and more will be needed, and I am sure this Congress will need to consider it. And a lot of people have talked about whether we should have national servicing standards. People have noted that the basic economic model of servicing doesn't work. Servicing works when you have performing mortgages, the servicers collect the payments and pass them on to the investors.

But when it comes to dealing with a crisis like this or foreclosures, they are not equipped to do it. So I think we have to look at things like servicing standards. The interagency task force is looking at a number of problems, the regulators are as well. So I think there is a lot of activity here and we will see it in the coming months.

Mr. TOWNS. Mr. Barofsky, what are the penalties that you are talking about? How can we sort of look again at that? Because something needs to be done.

Mr. BAROFSKY. Absolutely. And I think that, as Mr. Massad said, there are discussions of national servicing standards, and I think that Chairman Bair of the FDIC has put out some great ideas that would be terrific for all servicers, and I think a lot of these ideas could be adopted and brought into the HAMP program through supplemental directives.

But financial penalties based on withholding payments to the servicers. Treasury negotiated a deal when it obligated about $30 billion to the mortgage servicers for payments, and that includes the ability to withhold payment and impose financial penalties. To the extent that those penalties are not strong enough or good enough, well, that really falls on Treasury for not negotiating a better deal. This is not the most unpredictable possibility, that when you have a program of this size and scope, that there is going to be problems. And Treasury had repeated cited their ability to impose financial penalties as something, as a stick that they have, and we would just encourage them to take the stick out.

Mr. MASSAD. If I can just reply to that. We are certainly conscious of that, and we may withhold amounts in the future, but let's remember we can only withhold the amount that we owe them for permanent modifications. If they haven't entered into very many permanent modifications, there is not that much to withhold.

And there weren't very many permanent modifications initially, as this committee knows. People testified here in March and there were only 170,000 permanent modifications, and a lot of people said then the program was a failure. What we did since that time was we had a number of remedial actions we made the servicers take; we also diversified our programs, and I want to get into that later. But from that date, from late last March, we have increased the number of permanent modifications substantially now and, as I say, we are over 500,000 and the re-default rate on those is very, very low.

Mr. TOWNS. All right. Mr. Chairman, I see my time is up. But I think that if there is something that we need to do, I think you need to say it, because we just can't continue to let people lose their homes.

Thank you very much, Mr. Chairman.

Chairman ISSA. I thank the gentleman.

The Chair now recognizes the gentleman from North Carolina and the subcommittee chairman of jurisdiction for this, Mr. McHenry.

Mr. MCHENRY. Thank you, Mr. Chairman. In consultation with the chairman, it is the intent of my subcommittee for us to have field hearings and hear from those that have been affected from the HAMP program. We would welcome the Treasury to invite individuals that have been helped. However, in my constituency and the constituents I have talked with, it is easier to find those that have been hurt by HAMP rather than helped.

So my question to you, Mr. Massad, is do you have adequate provision under current law to ensure that HAMP is successful, yes or no?

Mr. MASSAD. Congressman, it depends on——

Mr. MCHENRY. Yes or no?

Mr. MASSAD. Congressman, if I can answer the question——

Mr. MCHENRY. I have 5 minutes, Mr. Massad. Yes or no? Actually, let me begin by asking do you think HAMP is successful.

Mr. MASSAD. I do.

Mr. MCHENRY. OK. So do you believe under current provision of law you have adequate authority to ensure that HAMP is successful?

Mr. MASSAD. I cannot solve the housing crisis with HAMP alone, if that is the meaning of your question. But I think helping over 500,000 people enter into permanent modifications, people who would otherwise be thrown out of their homes, people who make $50,000, and their neighborhoods would be hurt by that because they are now living next to a home that could be vandalized; it depresses their property values, it is a drag on the economy. I think, yes, I think those are dollars well spent.

Mr. MCHENRY. Thank you, Mr. Massad.

Mr. Barofsky, in your written testimony today you outlined that there are 2.9 million homes who received foreclosure filings in 2010, up from 2.8 million in 2009 and 2.3 million in 2008. Can you discuss your findings on the HAMP program?

Mr. BAROFSKY. Yes. I mean, again, not to diminish the positive impact it has on those families and those that are able to stay in the program, but you have to look at what the program was expected to do, and you have to look at it in the context of the entire foreclosure crisis, and what this program was intended to do. And the advantage of never actually putting out meaningful goals means you can declare success even when you have, looking at a total for this entire program of 700,000 to 800,000, when you originally expected to help three to four million, even when you have only spent $1 billion of the $45 billion that you allocated.

This program, if it helps five people, that is great for those five people. But what about all those millions of people who are not getting help, the millions of people that Treasury and the administration identified at the very beginning of this program of who they were going to try to help keep in their homes by modifying their mortgages to a sustainable level? And the numbers don't lie. And when I hear them declaring success with these incredibly modest numbers, numbers that are so modest that they can't even have enough money to pay to impose financial penalties, it is heartbreaking to a certain extent because it means that they won't recognize and make the changes that are necessary to make this a better program, because I hear from those people as well.

Mr. MCHENRY. Thank you, Mr. Barofsky. Moving on to the small business lending front, in your report you request that Treasury remove TARP assets and equity from the entity's balance sheet for purposes of evaluating its application for the Small Business Lending Fund. The intent of the Small Business Lending Fund, of course, is to increase lending. Has Treasury been open to your proposal?

Mr. BAROFSKY. Treasury has rejected that recommendation.

Mr. MCHENRY. Mr. Massad, why did you reject that?

Mr. MASSAD. Because we wanted to make sure we complied with Congress's directives in the law. Congress provided in the law that existing TARP recipients could refinance their loans into this Small Business Lending Fund, and we believe we are acting in accordance with that.

Mr. MCHENRY. Sure. But it is not a provision of law how you measure the removal from TARP into this Small Business Lending Fund, is there?

Mr. MASSAD. We did not believe that Congress was instructing us to basically penalize those institutions that had already received TARP funds. Quite the contrary.

Mr. MCHENRY. Mr. Barofsky, under your reading of the law, do they have provision to do this?

Mr. BAROFSKY. Absolutely. Congress specifically made a provision in the law that gave the Secretary of Treasury the ability to fashion certain regulations for TARP banks to enter into SBLF. There is nothing in the statute that gives you a matter of right, by being a TARP recipient, that you automatically get to apply for and—well, you get to apply for it, but that you automatically get converted into SBLF. SBLF offers tremendous advantages to TARP recipients who convert, and the taxpayer loses out on a lot of those, and our recommendation is a simple one: let's make sure that the banks that you have taken out of TARP and put into SBLF are adequately capitalized to meet the goals of this program.

We are not saying penalize TARP banks and say none of them can get brought into the program. Not at all. But we do think that it is important for Treasury to be very responsible and make sure that those that are going to get the benefits of being in SBLF, at taxpayer expense, are well suited to be able to do the lending, new lending, new incentivized lending from Government capital; and, frankly, we believe that those banks should be treated as other applicants who come into the program.

For example, when a bank applied for the CPP, they didn't get to take into account Government capital of whether they passed or don't pass; and that should be the same standard here. The fact that these banks have the benefit of Government capital, frankly, we don't believe necessarily that capital should count when making that evaluation. And if they are adequately capitalized without the Government capital and they can fulfill the goals of this program, great; they should be brought into the program if they meet the other conditions.

Chairman ISSA. I thank the gentleman.

Mr. MCHENRY. Mr. Chairman, I know my time has expired, but I would ask Mr. Massad to respond in writing to this very subject. We are interested here in this committee, and if you have concern that you don't have adequate provision of law, we would like to change that.

Chairman ISSA. The gentleman agrees to respond. I thank the gentleman.

The Chair now recognizes the gentlelady from New York, Mrs. Maloney.

Mrs. MALONEY. Thank you.

First, I would like to thank the panelists for their public service and report some good news in that the DOW just crossed 12,000 for the first time since June 2008; and that shows capital is flowing again and is a very good sign of economic recovery in our great c country. And, from your testimony today, TARP played a role in moving us in this good direction. You pointed out that it not only averted a meltdown, but laid the groundwork for economic recovery, which we are seeing today.

I must say that during the dark days I was getting phone calls in the middle of the night and all day long from constituents who were afraid of a collapse. There was a run on the money market on some banks, and I personally believe that my vote in support of TARP will historically be regarded as the right thing to do and good public policy, although all of us who were on the campaign trail, many of us were attacked relentlessly for having supported this important program.

I would like permission to put in the record one of the best reports that I have seen on the successes, bipartisan, from Blinder, a Democratic economist, and Zandi, a Republican one, on how the great recession was brought to an end.

Chairman ISSA. Without objection, so ordered.

Mrs. MALONEY. And also an article in the American Banker which talks about the home foreclosures and a foundation that is working with HAMP and others to help people stay in their homes.

Chairman ISSA. So ordered.

[The information referred to follows:]

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Foundation Is Independent, Uniquely Suited to Hamp Role

Re: "Lender Tie to Borrower Aid: How a fox was sent to guard the Hamp house," (Dec. 20), I want to clarify the role of the nonprofit **Homeownership Preservation Foundation.**

The HPF provides foreclosure prevention and mitigation counseling and financial education to homeowners. It administers a nationwide network of housing counselors that give needed assistance to about 5,500 homeowners each weekday, to help them avoid foreclosure, if possible. These trained, knowledgeable and empathetic counselors help the homeowners understand their situation and how to avoid foreclosure, develop a detailed action plan and monthly household budget and make connection with their servicers to determine viable options for their mortgage. HPF's counseling is independent and neutral, providing information that helps a homeowner make informed decisions about foreclosure prevention and home retention options.

HPF is able to provide free counseling to homeowners 24/7, 365 days a year, in 170 languages, through the financial support of public sources and the mortgage industry. HPF is a vital part of the solution to the nation's mortgage challenge, and homeowners value the counseling we provide. HPF helps facilitate discussion between servicers and homeowners but lacks legal authority to overturn a servicer or investor decision.

In addition to providing comprehensive counseling to distressed homeowners, HPF has worked in partnership, since 2009, with the **Treasury Department** to assist the Making Home Affordable Program. HPF performs two distinct functions for the MHA program: first, we provide information to homeowners to determine their eligibility for the program, and second, we developed a dedicated team to assist homeowners who may have questions about the MHA program or believe they were wrongfully denied participation in it. In both cases HPF's agents are trained to review the situation, educate the homeowner and facilitate communication between the homeowner and servicer when appropriate. Servicers hold both the authority and responsibility to modify loans. HPF is also the primary call to action for the national Loan Scam Alert campaign to build awareness of loan modification scam activity. HPF's role is to encourage counseling for homeowners to determine their options and to capture key information on potential scam organizations and work with local, state and federal authorities to shut down their operations.

Since June 2009, more than 1.8 million homeowners have called HPF's hotline for assistance, to report scams or to learn about the MHA program and how they can avoid foreclosure.

HPF's counselors assist homeowners completely independently of mortgage servicers and investors and are part of a nationwide network of 600 trained, nonprofit housing and credit counseling professionals who all work for HUD-approved counseling agencies and who must be certified by HUD as housing counselors. Homeowners counseled by HPF and other nonprofits have lower redefault rates, are often able to get their monthly mortgage payments reduced and, in many cases, are able to stay in their homes, as compared to those who were not counseled.

Of the 5,500 distressed homeowners who call our hotline each weekday, HPF completes comprehensive counseling sessions for about 1,500 and provides basic information, guidance and assistance to about 3,500. During the counseling sessions, we learn pertinent information about a homeowner's situation and use it to help the servicer determine a workout solution. A small sample of what we know includes:

- 35% understand that they need to either earn more money or spend less money to bring their monthly budgets into balance and produce a surplus that may then qualify them for a modification.
- 71% report that their primary reason for default is unemployment, underemployment or loss of income.

The difference that a counselor can make in the life of a distressed homeowner is transforming — the counselor helps the homeowners see their new reality, relinquish their attachment to their old way of life and the trappings that came with making more money, apply for benefits, continue to look for work while others in the household perhaps begin to work and possibly face the fact that they may need to take a job making less money (at least temporarily) so they can retain their homes.

HPF is an example of an effective public-private partnership whose mission is to ensure a safe haven for thousands of distressed homeowners each day.

Colleen Hernandez
Chief executive officer
Homeownership Preservation Foundation

How the Great Recession Was Brought to an End

JULY 27, 2010

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How the Great Recession Was Brought to an End

BY ALAN S. BLINDER AND MARK ZANDI[1]

The U.S. government's response to the financial crisis and ensuing Great Recession included some of the most aggressive fiscal and monetary policies in history. The response was multifaceted and bipartisan, involving the Federal Reserve, Congress, and two administrations. Yet almost every one of these policy initiatives remain controversial to this day, with critics calling them misguided, ineffective or both. The debate over these policies is crucial because, with the economy still weak, more government support may be needed, as seen recently in both the extension of unemployment benefits and the Fed's consideration of further easing.

In this paper, we use the Moody's Analytics model of the U.S. economy—adjusted to accommodate some recent financial-market policies—to simulate the macroeconomic effects of the government's total policy response. We find that its effects on real GDP, jobs, and inflation are huge, and probably averted what could have been called Great Depression 2.0. For example, we estimate that, without the government's response, GDP in 2010 would be about 11.5% lower, payroll employment would be less by some 8½ million jobs, and the nation would now be experiencing deflation.

When we divide these effects into two components—one attributable to the fiscal stimulus and the other attributable to financial-market policies such as the TARP, the bank stress tests and the Fed's quantitative easing—we estimate that the latter was substantially more powerful than the former. Nonetheless, the effects of the fiscal stimulus alone appear very substantial, raising 2010 real GDP by about 3.4%, holding the unemployment rate about 1½ percentage points lower, and adding almost 2.7 million jobs to U.S. payrolls. These estimates of the fiscal impact are broadly consistent with those made by the CBO and the Obama administration.[2] To our knowledge, however, our comprehensive estimates of the effects of the financial-market policies are the first of their kind.[3] We welcome other efforts to estimate these effects.

HOW THE GREAT RECESSION WAS BROUGHT TO AN END

The U.S. economy has made enormous progress since the dark days of early 2009. Eighteen months ago, the global financial system was on the brink of collapse and the U.S. was suffering its worst economic downturn since the 1930s. Real GDP was falling at about a 6% annual rate, and monthly job losses averaged close to 750,000. Today, the financial system is operating much more normally, real GDP is advancing at a nearly 3% pace, and job growth has resumed, albeit at an insufficient pace.

From the perspective of early 2009, this rapid snap back was a surprise. Maybe the country and the world were just lucky. But we take another view: The Great Recession gave way to recovery as quickly as it did largely because of the unprecedented responses by monetary and fiscal policymakers.

A stunning range of initiatives was undertaken by the Federal Reserve, the Bush and Obama administrations, and Congress (see Table 1). While the effectiveness of any individual element certainly can be debated, there is little doubt that in total, the policy response was highly effective. If policymakers had not reacted as aggressively or as quickly as they did, the financial system might still be unsettled, the economy might still be shrinking, and the costs to U.S. taxpayers would have been vastly greater.

Broadly speaking, the government set out to accomplish two goals: to stabilize the sickly financial system and to mitigate the burgeoning recession, ultimately restarting economic growth. The first task was made necessary by the financial crisis, which struck in the summer of 2007 and spiraled into a financial panic in the fall of 2008. After the Lehman Brothers bankruptcy, liquidity evaporated, credit spreads ballooned, stock prices fell sharply, and a string of major financial institutions failed. The second task was made necessary by the devastating effects of the financial crisis on the real economy, which began to contract at an alarming rate after Lehman.

The Federal Reserve took a number of extraordinary steps to quell the financial panic. In late 2007, it established the first of what would eventually become an alphabet soup of new credit facilities designed to provide liquidity to financial institutions and markets.[4] The Fed aggressively lowered interest rates during 2008, adopting a zero-interest-rate policy by year's end. It engaged in massive quantitative easing in 2009 and early 2010, purchasing Treasury bonds and Fannie Mae and Freddie Mac mortgage-backed securities (MBS) to bring down long-term interest rates.

The FDIC also worked to stem the financial turmoil by increasing deposit insurance limits and guaranteeing bank debt. Congress established the Troubled Asset Relief Program (TARP) in October 2008, part of which was used by the Treasury to inject much-needed capital into the nation's banks. The Treasury and Federal Reserve ordered the 19 largest bank holding companies to conduct comprehensive stress tests in the spring of 2009, to determine if they had sufficient capital to withstand further adverse circumstances—and to raise more capital if necessary. Once the results were made public, the stress tests and subsequent capital raising restored confidence in the banking system.

The effort to end the recession and jump-start the recovery was built around a series of fiscal stimulus measures. Tax rebate checks were mailed to lower- and middle-income households in the spring of 2008; the American Recovery and Reinvestment Act (ARRA) was passed in early 2009; and several smaller stimulus measures became law in late 2009 and early 2010.[5] In all, close to $1 trillion, roughly 7 percent of GDP, will be spent on fiscal stimulus. The stimulus has done what it was supposed to do: end the Great Recession and spur recovery. We do not believe it a coincidence that the turnaround from recession to recovery occurred last summer, just as the ARRA was providing its maximum economic benefit.

Stemming the slide also involved rescuing the nation's housing and auto industries. The housing bubble and bust were the proximate causes of the financial crisis, setting off a vicious cycle of falling house prices and surging foreclosures. Policymakers appear to have broken this cycle with an array of efforts, including the Fed's actions to bring down mortgage rates, an increase in conforming loan limits, a dramatic expansion of FHA lending, a series of tax credits for homebuyers, and the use of TARP funds to mitigate foreclosures. While the housing market remains troubled, its steepest declines are in the past.

The near collapse of the domestic auto industry in late 2008 also threatened to exacerbate the recession. GM and Chrysler eventually went through bankruptcies, but TARP funds were used to make the process relatively orderly. GM is already on its way to being a publicly traded company again. Without financial help from the federal government, all three domestic vehicle producers and many of their suppliers might have had to liquidate many operations, with devastating effects on the broader economy, and especially on the Midwest.

Although the economic pain was severe and the budgetary costs were great, this sounds like a success story.[6] Yet nearly all aspects of the government's response have been subjected to intense criticism. The Federal Reserve has been accused of overstepping its mandate by conducting fiscal as well as monetary policy. Critics have attacked efforts to stem the decline in house prices as inappropriate; claimed that foreclosure mitigation efforts were ineffective; and argued that the auto bailout was both unnecessary and unfair. Particularly heavy criticism has been aimed at the TARP and the Recovery Act, both of which have become deeply unpopular.

The Troubled Asset Relief Program was controversial from its inception. Both the program's $700 billion headline price tag and its goal of "bailing out" financial institutions—including some of the same institutions that triggered the panic in the first place—were hard for citizens and legislators to swallow. To this day, many believe the TARP was a costly failure. In fact, TARP has been a substantial success, helping to restore stability to the financial system and to end the freefall in housing and auto markets. Its ultimate cost to taxpayers will be a small fraction of the headline $700 billion figure: A number below $100 billion seems more likely to us, with the bank bailout component probably turning a profit.

Criticism of the ARRA has also been strident, focusing on the high price tag, the slow speed of delivery, and the fact that the unemployment rate rose much higher than the Administration predicted in January 2009.

HOW THE GREAT RECESSION WAS BROUGHT TO AN END

TABLE 1

Federal Government Response to the Financial Crisis

$ bil	Originally Committed	Currently Provided	Ultimate Cost
Total	11,937	3,513	1,590
Federal Reserve			
Term auction credit	900	0	0
Other loans	Unlimited	68	3
Primary credit	Unlimited	0	0
Secondary credit	Unlimited	0	0
Seasonal credit	Unlimited	0	0
Primary Dealer Credit Facility (expired 2/1/2010)	Unlimited	0	0
Asset-Backed Commercial Paper Money Market Mutual Fund	Unlimited	0	0
AIG	26	25	2
AIG (for SPVs)	9	0	0
AIG (for ALICO, AIA)	26	0	1
Rescue of Bear Stearns (Maiden Lane)**	27	28	4
AIG-RMBS purchase program (Maiden Lane II)**	23	16	1
AIG-CDO purchase program (Maiden Lane III)**	30	23	4
Term Securities Lending Facility (expired 2/1/2010)	200	0	0
Commercial Paper Funding Facility** (expired 2/1/2010)	1,800	0	0
TALF	1,000	43	0
Money Market Investor Funding Facility (expired 10/30/2009)	540	0	0
Currency swap lines (expired 2/1/2010)	Unlimited	0	0
Purchase of GSE debt and MBS (expired 3/31/2010)	1,425	1,295	0
Guarantee of Citigroup assets (terminated 12/23/2009)	286	0	0
Guarantee of Bank of America assets (terminated)	108	0	0
Purchase of long-term Treasuries	300	300	0
Treasury			
Fed supplementary financing account	560	200	0
Fannie Mae and Freddie Mac	Unlimited	145	305
FDIC			
Guarantee of U.S. banks' debt*	1,400	305	4
Guarantee of Citigroup debt	10		0
Guarantee of Bank of America debt	3		0
Transaction deposit accounts	500	0	0
Public-Private Investment Fund Guarantee	1,000	0	0
Bank Resolutions	Unlimited	23	71
Federal Housing Administration			
Refinancing of mortgages, Hope for Homeowners	100	0	0
Expanded Mortgage Lending	Unlimited	150	26
Congress			
TARP (see detail in Table 9)	600	277	101
Economic Stimulus Act of 2008	170	170	170
American Recovery and Reinvestment Act of 2009***	784	391	784
Cash for Clunkers	3	3	3
Additional Emergency UI benefits	90	39	90
Other Stimulus	21	12	21

NOTES: *Includes foreign denominated debt; **Net portfolio holdings; *** Excludes AMT patch

HOW THE GREAT RECESSION WAS BROUGHT TO AN END

While we would not defend every aspect of the stimulus, we believe this criticism is largely misplaced, for these reasons:

The unusually large size of the fiscal stimulus (equal to about 7% of GDP) is consistent with the extraordinarily severe downturn and the limited ability to use monetary policy once interest rates neared zero.

Regarding speed, almost $500 billion has been spent to date (see Table 2). What matters for economic growth is the pace of stimulus spending, which surged from nothing at the start of 2009 to over $100 billion (over $400 billion at an annual rate) in the second quarter. That is a big change in a short period, and it is one major reason why the Great Recession ended and recovery began last summer.[7]

Critics who argue that the ARRA failed because it did not keep unemployment below 8% ignore the facts that (a) unemployment was already above 8% when the ARRA was passed and (b) most private forecasters (including Moody's Analytics) misjudged how serious the downturn would be. If anything, this forecasting error suggests the stimulus package should have been even larger than it was.

This study attempts to quantify the contributions of the TARP, the stimulus, and other government initiatives to ending the financial panic and the Great Recession. In sum, we find they were highly effective. Without such a determined and aggressive response by policymakers, the economy would likely have fallen into a much deeper slump.

Quantifying the economic impact

To quantify the economic impacts of the fiscal stimulus and the financial-market policies such as the TARP and the Fed's quantitative easing, we simulated the Moody's Analytics' model of the U.S. economy under four scenarios:

1. a baseline that includes all the policies actually pursued
2. a counterfactual scenario with the fiscal stimulus but without the financial policies
3. a counterfactual with the financial policies but without fiscal stimulus
4. a scenario that excludes all the policy responses.[8]

The differences between Scenario 1 and Scenario 4 provide the answers we seek about the impacts of the panoply of anti-recession policies. Scenarios 2 and 3 enable us to decompose the overall impact into the components stemming from the fiscal stimulus and financial initiatives. All simulations begin in the first quarter of 2008 with the start of the Great Recession, and end in the fourth quarter of 2012.

Estimating the economic impact of the policies is not an accounting exercise, but an econometric one. It is not feasible to identify and count each job created or saved by these policies. Rather, outcomes for employment and other activity must be estimated using a statistical representation of the economy based on historical relationships, such as the Moody's Analytics model. This model is regularly used for forecasting, scenario analysis, and quantifying the impacts of a wide range of policies on the economy. The Congressional Budget Office and the Obama Administration have derived their impact estimates for policies such as the fiscal stimulus using a similar approach.

The modeling techniques for simulating the fiscal policies were straightforward, and have been used by countless modelers over the years. While the scale of the fiscal stimulus was massive, most of the instruments themselves (tax cuts, spending) were conventional, so not much innovation was required on our part. A few details are provided in Appendix B.

But modeling the vast array of financial policies, most of which were unprecedented and unconventional, required some creativity, and forced us to make some major simplifying assumptions. Our basic approach was to treat the financial policies as ways to reduce *credit spreads*, particularly the three credit spreads that play key roles in the Moody's Analytics model: The so-called TED spread between three-month Libor and three-month Treasury bills; the spread between fixed mortgage rates and 10-year Treasury bonds; and the "junk bond" (below investment grade) spread over Treasury bonds. All three of these spreads rose alarmingly during the crisis, but came tumbling down once the financial medicine was applied. The key question for us was how much of the decline in credit spreads to attribute to the policies, and here we tried several different assumptions.[9] All of this is discussed in Appendix B.

The results

Under the baseline scenario, which includes all the financial and fiscal policies, and is the most likely outlook for the economy, the recovery that began a year ago is expected to remain intact. The economy struggles during the second half of this year, as the sources of growth that powered the first year of recovery—including the stimulus and a powerful inventory swing—begin to fade. Fallout from the European debt crisis also weighs on the U.S. economy. But by this time next year, the economy gains traction as businesses respond to better profitability and stronger balance sheets by investing and hiring more. In the baseline scenario, real GDP, which declined 2.4% in 2009, expands 2.9% in 2010 and 3.6% in 2011, with monthly job growth averaging near 100,000 in 2010 and above 200,000 in 2011. Unemployment is still close to 10% at the end of 2010, but closer to 9% by the end of 2011. The federal budget deficit is $1.4 trillion in the current 2010 fiscal year, equal to approximately 10% of GDP. It falls only slowly, to $1.15 trillion in FY 2011 and to $900 billion in FY 2012.

In the scenario that excludes all the extraordinary policies, the downturn continues into 2011. Real GDP falls a stunning 7.4% in 2009 and another 3.7% in 2010 (see Table 3). The peak-to-trough decline in GDP is therefore close to 12%, compared to an actual decline of about 4%. By the time employment hits bottom, some 16.6 million jobs are lost in this scenario—about twice as many as actually were lost. The unemployment rate peaks at 16.5%, and although not determined in this analysis, it would not be surprising if the *under*employment rate approached one-fourth of the labor force. The federal budget deficit surges to over $2 trillion in fiscal year 2010, $2.6 trillion in fiscal year 2011, and $2.25 trillion in FY 2012. Remember, this is with *no policy response*. With outright deflation in prices and wages in 2009-2011, this dark scenario constitutes a 1930s-like depression.

TABLE 2

American Recovery and Reinvestment Act Spendout

$ bil, Historical data through June 2010

	Currently Provided	2009 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	09Q1	09Q2	09Q3	09Q4	10Q1	10Q2
Total	472	0.0	3.4	9.7	20.3	36.6	45.8	24.6	26.9	52.2	30.1	30.4	28.9	13.1	102.8	103.7	89.4	80.8	82.4
Infrastructure and Other Spending	56	0.0	0.0	0.0	0.0	1.5	3.7	1.7	3.2	4.3	3.8	3.9	4.7	0.0	5.2	9.2	12.4	14.1	15.1
Traditional Infrastructure	14	0.0	0.0	0.0	0.0	0.2	0.2	0.8	1.2	0.7	1.8	1.5	1.4	0.0	0.4	2.6	4.6	2.9	3.4
Nontraditional Infrastructure	42	0.0	0.0	0.0	0.0	1.3	3.5	0.9	2.1	3.5	2.1	2.4	3.3	0.0	4.8	6.5	7.8	11.2	11.6
Transfers to state and local governments	119	0.0	3.4	6.6	5.8	9.4	8.4	8.2	8.0	8.4	8.2	8.0	7.7	10.0	23.5	24.6	23.9	17.2	20.2
Medicaid	69	0.0	3.4	6.6	5.4	4.8	4.7	4.5	4.3	4.3	4.1	4.3	4.1	10.0	14.9	13.1	12.6	9.0	9.3
Education	51	0.0	0.0	0.0	0.3	4.6	3.7	3.7	3.7	4.1	4.1	3.7	3.6	0.0	8.7	11.5	11.4	8.2	10.9
Transfers to persons	109	0.0	0.0	0.8	6.1	17.5	7.6	6.1	6.4	6.4	6.4	6.7	6.7	0.8	31.2	18.9	19.8	19.4	18.8
Social Security	13	0.0	0.0	0.0	0.0	11.6	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	13.1	0.0	0.0	0.0	0.0
Unemployment Assistance	66	0.0	0.0	0.0	4.1	4.1	4.1	4.1	4.5	4.5	4.5	4.8	4.8	0.0	12.2	13.1	14.1	13.6	13.0
Food stamps	10	0.0	0.0	0.0	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.0	1.9	1.9	1.9	1.9	1.9
Cobra Payments	20	0.0	0.0	0.8	1.4	1.3	1.4	1.4	1.3	1.3	1.3	1.3	1.3	0.8	4.1	3.9	3.8	3.9	3.9
Tax cuts	188	0.0	0.0	2.3	8.5	8.3	26.1	8.6	9.3	33.2	11.7	11.9	9.7	2.3	42.8	51.1	33.2	30.2	28.4
Businesses and other tax incentives	40	0.0	0.0	0.0	0.0	0.0	18.0	0.0	0.0	22.0	0.0	0.0	0.0	0.0	18.0	22.0	0.0	0.0	0.0
Individuals ex increase in AMT exemption	148	0.0	0.0	2.3	8.5	8.3	8.1	8.6	9.3	11.2	11.7	11.9	9.7	2.3	24.8	29.1	33.2	30.2	28.4

Sources: Treasury, Joint Committee on Taxation, Recovery.gov, Moody's Analytics

TABLE 3

Simulation of No Policy Response

No Policy Response | Baseline (with actual policy response)

	08q1	08q2	08q3	08q4	09Q1	09Q2	09Q3	09Q4	10Q1	10Q2	10Q3	10Q4	2008	2009	2010	2011	2012
Real GDP (Bil. 05$, SAAR)	13,367	13,365	13,251	13,003	12,609	12,324	12,132	12,014	11,903	11,831	11,771	11,760	13,246	12,270	11,816	12,008	12,620
annualized % change	*-0.7*	*-0.1*	*-3.4*	*-7.3*	*-11.6*	*-8.7*	*-6.1*	*-3.8*	*-3.6*	*-2.4*	*-2.0*	*-0.3*	*-0.1*	*-7.4*	*-3.7*	*1.6*	*5.1*
Real GDP (Bil. 05$, SAAR)	13,367	13,415	13,325	13,142	12,925	12,902	12,973	13,150	13,239	13,335	13,400	13,490	13,312	12,987	13,366	13,852	14,552
annualized % change	*-0.7*	*1.5*	*-2.7*	*-5.4*	*-6.4*	*-0.7*	*2.2*	*5.6*	*2.7*	*2.9*	*2.0*	*2.7*	*0.4*	*-2.4*	*2.9*	*3.6*	*5.1*
Payroll Employment (Mil., SA)	137.9	137.5	136.6	134.6	131.6	128.4	125.9	124.0	122.8	122.3	121.5	121.3	136.7	127.5	122.0	122.4	125.9
annualized % change	0.1	-1.3	-2.4	-5.7	-8.8	-9.3	-7.7	-6.0	-3.8	-1.5	-2.8	-0.4	-0.7	-6.7	-4.3	0.3	2.9
Payroll Employment (Mil., SA)	137.9	137.5	136.7	135.0	132.8	131.1	130.1	129.6	129.7	130.4	130.5	130.8	136.8	130.9	130.4	132.2	136.0
annualized % change	*0.1*	*-1.2*	*-2.3*	*-4.8*	*-6.4*	*-5.0*	*-3.1*	*-1.3*	*0.2*	*2.1*	*0.4*	*1.0*	*-0.6*	*-4.3*	*-0.4*	*1.4*	*2.9*
Unemployment Rate (%)	5.0	5.3	6.1	7.1	8.7	10.6	12.1	13.5	14.0	15.0	15.7	16.2	5.9	11.2	15.2	16.3	15.0
Unemployment Rate (%)	5.0	5.3	6.0	7.0	8.2	9.3	9.6	10.0	9.7	9.7	9.8	9.9	5.8	9.3	9.8	9.8	8.3
CPI (Index, 1982-84=100, SA)	212.8	215.6	218.9	213.6	212.2	212.7	211.4	209.4	208.1	207.2	205.6	204.8	215.2	211.4	206.4	204.4	208.7
ıalized % change	*4.7*	*5.2*	*6.3*	*-9.3*	*-2.6*	*1.1*	*-2.5*	*-3.7*	*-2.5*	*-1.6*	*-3.0*	*-1.6*	*3.8*	*-1.8*	*-2.4*	*-1.0*	*2.1*
CPI (Index, 1982-84=100, SA)	212.8	215.6	218.9	213.7	212.5	213.5	215.4	216.8	217.6	218.1	218.6	219.4	215.2	214.5	218.4	222.7	229.6
annualized % change	*4.7*	*5.3*	*6.4*	*-9.2*	*-2.2*	*1.9*	*3.7*	*2.6*	*1.5*	*0.8*	*1.0*	*1.4*	*3.8*	*-0.3*	*1.8*	*2.0*	*3.1*

Sources: BEA, BLS, Moody's Analytics

TABLE 4

Baseline vs. No Policy Response Scenario

Difference	2008	2009	2010	2011	2012
Real GDP (Bil. 05$, SAAR)	66	718	1,549	1,843	1,933
percentage points	*0.50*	*4.93*	*6.61*	*2.01*	*-0.03*
Payroll Employment (Mil., SA)	0.12	3.45	8.40	9.82	10.03
Unemployment Rate (%)	-0.05	-1.96	-5.46	-6.55	-6.74
CPI (percentage points)	0.02	1.44	4.17	2.94	1.00

HOW THE GREAT RECESSION WAS BROUGHT TO AN END

The *differences* between the baseline scenario and the scenario with no policy responses are summarized in Table 4. These differences represent our estimates of the combined effects of the full range of policies—and they are huge. By 2011, real GDP is $1.8 trillion (15%) higher because of the policies; there are almost 10 million more jobs, and the unemployment rate is about 6½ percentage points lower. The inflation rate is about 3 percentage points higher (roughly 2% instead of -1%). That's what averting a depression means.

But how much of this gigantic effect was due to the government's efforts to stabilize the financial system and how much was due to the fiscal stimulus? The other two scenarios are designed to answer those questions.

The financial policy responses were especially important. In the scenario without them, but including the fiscal stimulus, the recession would only now be winding down, a full year after the downturn's actual end. Real GDP declines by 5% in 2009, and it grows only a bit in 2010, with a peak-to-trough decline of about 6% (see Table 5). Some 12 million payroll jobs are lost peak-to-trough in this scenario, and the unemployment rate peaks at 13%. There is also a lengthy period of modest deflation in this scenario. The federal deficit is $1.75 trillion in fiscal year 2010, and remains a disconcertingly high $1.5 trillion in fiscal year 2011 and $1.1 trillion in FY 2012.

The *differences* between the baseline and the scenario based on no financial policy responses are summarized in Table 6. They represent our estimates of the combined effects of the various policy efforts to stabilize the financial system—and they are very large. By 2011, real GDP is almost $800 billion (6%) higher because of the policies, and the unemployment rate is almost 3 percentage points lower. By the second quarter of 2011—when the difference between the baseline and this scenario is at its largest—the financial-rescue policies are credited with saving almost 5 million jobs.

In the scenario that includes all the financial policies but none of the fiscal stimulus, the recession ends in the fourth quarter of 2009 and expands very slowly through summer 2010. Real GDP declines almost 4% in 2009 and increases only 1% in 2010 (see Table 7). The peak-to-trough decline in employment is more than 10 million. The economy finally gains some traction by early 2011, but by then unemployment is peaking at nearly 12%. The federal budget deficit reaches $1.6 trillion in fiscal year 2010, $1.3 trillion in FY 2011, and $1 trillion in FY 2012. These results are broadly consistent with those of the Congressional Budget Office in its analysis of the economic impact of the ARRA.[10]

The *differences* between the baseline and the scenario based on no fiscal stimulus are summarized in Table 8. These differences represent our estimates of the sizable effects of all the fiscal stimulus efforts. Because of the fiscal stimulus, real GDP is about $460 billion (more than 6%) higher by 2010, when the impacts are at their maximum; there are 2.7 million more jobs; and the unemployment rate is almost 1.5 percentage points lower.

Notice that the *combined* effects of the financial and fiscal policies (Table 4) exceed the sum of the financial-policy effects (Table 6) and the fiscal-policy effects (Table 8) in isolation. This is because the policies tend to reinforce each other. To illustrate this dynamic, consider the impact of providing housing tax credits, which were part of the stimulus. The credits boost housing demand. House prices are thus higher, foreclosures decrease, and the financial system suffers smaller losses. These smaller losses, in turn, enhance the effectiveness of the financial-market policy efforts. Such positive interactions between financial and fiscal policies play out in numerous other ways as well.

Conclusions

The financial panic and Great Recession were massive blows to the U.S. economy. Employment is still some 8 million below where it was at its pre-recession peak, and the unemployment rate remains above 9%. The hit to the nation's fiscal health has been equally disconcerting, with budget deficits in fiscal years 2009 and 2010 of close to $1.4 trillion.

These unprecedented deficits reflect both the recession itself and the costs of the government's multi-faceted response to it. The total *direct* costs, including the TARP, the fiscal stimulus, and other efforts, such as addressing the mortgage-related losses at Fannie Mae and Freddie Mac, are expected to reach almost $1.6 trillion. Adding in nearly $750 billion in lost revenue from the weaker economy, the total budgetary cost of the crisis is projected to top $2.35 trillion, about 16% of GDP. For historical comparison, the savings-and-loan crisis of the early 1990s cost some $350 billion in today's dollars: $275 billion in direct costs plus $75 billion due to the associated recession. This sum was equal to almost 6% of GDP at that time.

It is understandable that the still-fragile economy and the massive budget deficits have fueled criticism of the government's response. No one can know for sure what the world would look like today if policymakers had not acted as they did—our estimates are just that, estimates. It is also not difficult to find fault with isolated aspects of the policy response. Were the bank and auto industry bailouts really necessary? Do extra UI benefits encourage the unemployed not to seek work? Should not bloated state and local governments be forced to cut wasteful budgets? Was the housing tax credit a giveaway to buyers who would have bought homes anyway? Are the foreclosure mitigation efforts the best that could have been done? The questions go on and on.

While all of these questions deserve careful consideration, it is clear that *laissez-faire* was not an option; policymakers had to act. Not responding would have left both the economy and the government's fiscal situation in far graver condition. We conclude that Ben Bernanke was probably right when he said that "We came very close in October [2008] to Depression 2.0."[11]

While the TARP has not been a universal success, it has been instrumental in stabilizing the financial system and ending the recession. The Capital Purchase Program gave many financial institutions a lifeline when there was no other. Without the CPP's equity infusions, the entire system might have come to a grinding halt. TARP also helped shore up asset prices, and protected the system by backstopping Fed and Treasury efforts to keep large financial institutions

TABLE 5

Simulation of No Financial Policy Response

☐ No Policy Response ☐ Baseline (with actual policy response)

	08q1	08q2	08q3	08q4	09Q1	09Q2	09Q3	09Q4	10Q1	10Q2	10Q3	10Q4	2008	2009	2010	2011	2012
Real GDP (Bil. 05$, SAAR)	13,367	13,415	13,325	13,073	12,733	12,592	12,565	12,637	12,634	12,647	12,658	12,724	13,295	12,632	12,665	13,065	13,774
annualized % change	*-0.7*	*1.5*	*-2.7*	*-7.4*	*-10.0*	*-4.3*	*-0.9*	*2.3*	*-0.1*	*0.4*	*0.4*	*2.1*	*0.3*	*-5.0*	*0.3*	*3.2*	*5.4*
Real GDP (Bil. 05$, SAAR)	13,367	13,415	13,325	13,142	12,925	12,902	12,973	13,150	13,239	13,335	13,400	13,490	13,312	12,987	13,366	13,852	14,552
annualized % change	*-0.7*	*1.5*	*-2.7*	*-5.4*	*-6.4*	*-0.7*	*2.2*	*5.6*	*2.7*	*2.9*	*2.0*	*2.7*	*0.4*	*-2.4*	*2.9*	*3.6*	*5.1*
Payroll Employment (Mil., SA)	137.9	137.5	136.7	134.8	131.9	129.4	127.5	126.4	125.8	125.9	125.8	126.1	136.7	128.8	125.9	127.4	131.3
annualized % change	0.1	-1.2	-2.3	-5.5	-8.2	-7.4	-5.9	-3.5	-1.7	0.4	-0.5	0.9	-0.6	-5.8	-2.2	1.2	3.1
Payroll Employment (Mil., SA)	137.9	137.5	136.7	135.0	132.8	131.1	130.1	129.6	129.7	130.4	130.5	130.8	136.8	130.9	130.4	132.2	136.0
annualized % change	*0.1*	*-1.2*	*-2.3*	*-4.8*	*-6.4*	*-5.0*	*-3.1*	*-1.3*	*0.2*	*2.1*	*0.4*	*1.0*	*-0.6*	*-4.3*	*-0.4*	*1.4*	*2.9*
Unemployment Rate (%)	5.0	5.3	6.0	7.1	8.4	9.9	10.9	11.9	11.9	12.5	12.6	12.8	5.8	10.3	12.5	12.7	11.1
Unemployment Rate (%)	5.0	5.3	6.0	7.0	8.2	9.3	9.6	10.0	9.7	9.7	9.8	9.9	5.8	9.3	9.8	9.8	8.3
CPI (Index, 1982-84=100, SA)	212.8	215.6	218.9	213.6	212.3	213.1	213.5	213.3	212.9	212.5	211.9	211.8	215.2	213.1	212.3	212.9	218.0
annualized % change	*4.7*	*5.3*	*6.4*	*-9.3*	*-2.5*	*1.4*	*0.9*	*-0.4*	*-0.7*	*-0.8*	*-1.2*	*-0.2*	*3.8*	*-1.0*	*-0.4*	*0.3*	*2.4*
CPI (Index, 1982-84=100, SA)	212.8	215.6	218.9	213.7	212.5	213.5	215.4	216.8	217.6	218.1	218.6	219.4	215.2	214.5	218.4	222.7	229.6
annualized % change	*4.7*	*5.3*	*6.4*	*-9.2*	*-2.2*	*1.9*	*3.7*	*2.6*	*1.5*	*0.8*	*1.0*	*1.4*	*3.8*	*-0.3*	*1.8*	*2.0*	*3.1*

Sources: BEA, BLS, Moody's Analytics

TABLE 6

Baseline Scenario vs. No Financial Policy Scenario

Difference	2008	2009	2010	2011	2012
Real GDP (Bil. 05$, SAAR)	17	356	700	787	778
percentage points	*0.13*	*2.55*	*2.65*	*0.48*	*-0.37*
Payroll Employment (Mil., SA)	0.06	2.12	4.46	4.77	4.64
Unemployment Rate (%)	-0.02	-1.00	-2.70	-2.91	-2.81
CPI (percentage points)	0.01	0.69	2.18	1.68	0.69

TABLE 7

Simulation of No Fiscal Stimulus

☐ No Policy Response ☐ Baseline (with actual policy response)

	08q1	08q2	08q3	08q4	09Q1	09Q2	09Q3	09Q4	10Q1	10Q2	10Q3	10Q4	2008	2009	2010	2011	2012
Real GDP (Bil. 05$, SAAR)	13,367	13,365	13,251	13,098	12,875	12,759	12,719	12,761	12,802	12,873	12,931	13,026	13,270	12,779	12,908	13,474	14,216
annualized % change	*-0.7*	*-0.1*	*-3.4*	*-4.5*	*-6.6*	*-3.6*	*-1.2*	*1.3*	*1.3*	*2.3*	*1.8*	*3.0*	*0.1*	*-3.7*	*1.0*	*4.4*	*5.5*
Real GDP (Bil. 05$, SAAR)	13,367	13,415	13,325	13,142	12,925	12,902	12,973	13,150	13,239	13,335	13,400	13,490	13,312	12,987	13,366	13,852	14,552
annualized % change	*-0.7*	*1.5*	*-2.7*	*-5.4*	*-6.4*	*-0.7*	*2.2*	*5.6*	*2.7*	*2.9*	*2.0*	*2.7*	*0.4*	*-2.4*	*2.9*	*3.6*	*5.1*
Payroll Employment (Mil., SA)	137.9	137.5	136.6	135.0	132.8	130.6	129.2	128.0	127.5	127.8	127.6	127.9	136.7	130.1	127.7	129.6	133.9
annualized % change	0.1	-1.3	-2.4	-4.8	-6.4	-6.3	-4.3	-3.5	-1.6	1.0	-0.5	0.7	-0.6	-4.8	-1.9	1.5	3.3
Payroll Employment (Mil., SA)	137.9	137.5	136.7	135.0	132.8	131.1	130.1	129.6	129.7	130.4	130.5	130.8	136.8	130.9	130.4	132.2	136.0
annualized % change	*0.1*	*-1.2*	*-2.3*	*-4.8*	*-6.4*	*-5.0*	*-3.1*	*-1.3*	*0.2*	*2.1*	*0.4*	*1.0*	*-0.6*	*-4.3*	*-0.4*	*1.4*	*2.9*
Unemployment Rate (%)	5.0	5.3	6.1	7.0	8.2	9.5	10.2	10.8	10.8	11.0	11.2	11.6	5.8	9.7	11.2	11.4	9.5
Unemployment Rate (%)	5.0	5.3	6.0	7.0	8.2	9.3	9.6	10.0	9.7	9.7	9.8	9.9	5.8	9.3	9.8	9.8	8.3
CPI (Index, 1982-84=100, SA)	212.8	215.6	218.9	213.7	212.4	213.2	214.0	214.2	214.3	214.4	214.3	214.6	215.2	213.4	214.4	216.8	223.0
annualized % change	*4.7*	*5.2*	*6.3*	*-9.2*	*-2.3*	*1.6*	*1.4*	*0.4*	*0.3*	*0.2*	*-0.2*	*0.5*	*3.8*	*-0.8*	*0.5*	*1.1*	*2.9*
CPI (Index, 1982-84=100, SA)	212.8	215.6	218.9	213.7	212.5	213.5	215.4	216.8	217.6	218.1	218.6	219.4	215.2	214.5	218.4	222.7	229.6
annualized % change	*4.7*	*5.3*	*6.4*	*-9.2*	*-2.2*	*1.9*	*3.7*	*2.6*	*1.5*	*0.8*	*1.0*	*1.4*	*3.8*	*-0.3*	*1.8*	*2.0*	*3.1*

Sources: BEA, BLS, Moody's Analytics

TABLE 8

Baseline Scenario vs. No Fiscal Stimulus Scenario

Difference	2008	2009	2010	2011	2012
Real GDP (Bil. 05$, SAAR)	42	209	458	378	336
percentage points	*0.32*	*1.26*	*1.90*	*-0.75*	*-0.45*
Payroll Employment (Mil., SA)	0.04	0.76	2.65	2.59	2.11
Unemployment Rate (%)	-0.01	-0.40	-1.40	-1.58	-1.24
CPI (percentage points)	0.01	0.50	1.35	0.86	0.21

functioning. TARP money was also vital to ensuring an orderly restructuring of the auto industry at a time when its unraveling would have been a serious economic blow. TARP funds were not used as effectively in mitigating foreclosures, but policymakers should not stop trying.

The fiscal stimulus also fell short in some respects, but without it the economy might still be in recession. Increased unemployment insurance benefits and other transfer payments and tax cuts put cash into households' pockets that they have largely spent, supporting output and employment. Without help from the federal government, state and local governments would have slashed payrolls and programs and raised taxes at just the wrong time. (Even with the stimulus, state and local governments have been cutting and will cut more.) Infrastructure spending is now kicking into high gear and will be a significant source of jobs through at least this time next year. And business tax cuts have contributed to increased investment and hiring.

When all is said and done, the financial and fiscal policies will have cost taxpayers a substantial sum, but not nearly as much as most had feared and not nearly as much as if policymakers had not acted at all. If the comprehensive policy responses saved the economy from another depression, as we estimate, they were well worth their cost.

Appendix A: Some Details on the Financial and Fiscal Policies

Troubled Asset Relief Program

The Troubled Asset Relief Program (TARP) was established on October 3, 2008 in response to the mounting financial panic. As originally conceived, the $700 billion fund was to buy "troubled assets" from struggling financial institutions in order to re-establish their financial viability. But because of the rapid unraveling of the financial system, the funds were used for direct equity infusions into these institutions instead and ultimately for a variety of other purposes.

Some elements of the TARP clearly have been more successful than others. Perhaps the most effective was the Capital Purchase Program—the use of TARP funds to shore up banks' capital. It seems unlikely that the system would have stabilized without it or something similar. A small amount of TARP money was eventually used to facilitate the purchase of troubled assets through the Fed's TALF program and Treasury's PPIP program. The volume of transactions was small, but the TALF appears to have improved the pricing of these assets, thus reducing pressure on the system as a whole. The TARP also helped bring about the orderly bankruptcies of GM and Chrysler, forestalling what otherwise would have been a disorderly liquidation accompanied by massive layoffs during the worst part of the recession. The TARP has probably been least effective, at least to date, in easing the foreclosure crisis.

While TARP's ultimate cost to taxpayers will be significant—it is projected between $100 billion and $125 billion—it will fall well short of the $700 billion originally proposed. Indeed, the bank bailout part will likely turn a profit. To date, more than half the banks that received TARP funds have repaid them with interest and often with capital gains (on options) as well.

TARP history

The nation's financial system nearly collapsed in the fall of 2008. Fannie Mae and Freddie Mac and insurer AIG were effectively nationalized; Lehman Brothers, Wachovia, and Washington Mutual failed; Merrill Lynch and Citigroup staggered, and nearly every other major U.S. financial institution was contemplating the consequences of failure. There were silent deposit runs on many money market funds, and the commercial paper market shut down, threatening the ability of major nonfinancial businesses to operate. Global financial markets were in disarray.

Poor policymaking prior to the TARP helped turn a serious but seemingly controllable financial crisis into an out-of-control panic. Policymakers' uneven treatment of troubled institutions (for example, saving Bear Stearns but letting Lehman fail) created confusion about the rules of the game and uncertainty among shareholders, who dumped their stock, and creditors, who demanded more collateral to provide liquidity to financial institutions.

The TARP was the first large-scale attempt by policymakers to restore stability to the system. In late September 2008, the U.S. Treasury and Federal Reserve asked Congress to establish a $700 billion fund, primarily to purchase the poorly performing mortgage loans and related securities that threatened the system. Responding to a variety of economic and political counter-arguments, Congress initially rejected the TARP, further exacerbating the financial turmoil.

With the financial panic intensifying and threats to the economy growing clearer, Congress quickly reversed itself, however, and the TARP was established on October 3, 2008. But with the banks deteriorating rapidly and asset purchases extremely complex, the TARP was quickly shifted to injecting capital directly into major financial institutions. Initially, this meant buying senior preferred stock and warrants in the nine largest American banks, a tactic subsequently extended to other banks.

TARP costs

While Congress appropriated $700 billion for the TARP, only $600 billion was ever committed, and as of June 2010, only $261 billion was still outstanding (see Table 9). TARP's ultimate cost to taxpayers probably will end up close to $100 billion, nearly half of that from GM.[12] While this is a large sum, early fears that much of the $700 billion would be lost were significantly overdone.

The largest use of the TARP funds has been to recapitalize the banking system via the Capital Purchase Program. At its conception, the CPP was expected to amount to $250 billion. Instead, its peak in early 2009 was actually about $205 billion, and as financial conditions have improved, many of the nation's largest banks have repaid the funds. There is only $67 billion outstanding in the CPP. Banks also paid an appropriately high price for their TARP funds in the forms of restrictions on dividends and executive compensation, and additional regulatory oversight. These costs made banks want to repay TARP as quickly as possible. Since nearly all CPP funds are expected to be repaid eventually with interest, with additional proceeds from warrant sales, the CPP almost certainly will earn a meaningful profit for taxpayers.

Approximately $200 billion in TARP funds were committed to support the financial system in other ways. Some $115 billion went to three distressed and systemically important financial institutions: AIG, Bank of America, and Citigroup. BofA and Citi have repaid what they owed, but the $70 billion provided to AIG is still outstanding, and an estimated $40 billion is now expected to be lost.[13] Other efforts to support the financial system, including TALF, PPIP, and the small business lending initiatives have not amounted to much, quantitatively, ensuring that the costs of these programs to taxpayers will be minimal.

The TARP commitment to the motor vehicle industry, including GM, GMAC, Chrysler, and various auto suppliers, totaled more than $80 billion. Approximately half of this is estimated as a loss, although the actual loss will depend significantly on the success of the upcoming GM initial public offering.

For taxpayers, the costliest part of the TARP will likely be its efforts to promote residential mortgage loan modifications, short sales, and refinancings via the Homeowner Affordability and Stability Plan. All of the $50 billion committed for the various aspects of this effort are expected to be spent and not recouped.

TABLE 9

Troubled Asset Relief Program

$ bil	Orginally Committed	Post-FinReg	Currently Provided	Ultimate Cost
Total	600	475	261	101
CPP (Financial institutions)	250	205	67	-24
Tarp Repayments			138	
Losses			2	
Dividends, Warrant proceeds			21	
AIG	70	70	70	38
Citi (TIP)	20	20	Repaid	0
Bank of America (TIP)	20	20	Repaid	0
Citi debt guarantee	5	NA	Repaid	0
Federal Reserve (TALF)	55	4	4	0
Public-Private Investment Fund (PPIP)	30	22	10	1
SBA loan purchase	15	0	>1	0
Homeowner Affordability and Stability Plan	52	49	41	49
GMAC	13	13	13	4
GM	50	50	43	25
GM (for GMAC)	1	1	1	0
Chrysler	13	13	11	8
Chrysler Financial Loan	2	2	Repaid	0
Auto suppliers	5	5	Repaid	0

Sources: Federal Reserve, Treasury, FDIC, FHA, Moody's Analytics

Capital Purchase Program

The CPP has been the most successful part of the TARP. Without capital injections from the federal government, the financial system might very well have collapsed. It is difficult to trace out such a scenario, but at the very least the resulting credit crunch would have been much more severe and long-lasting. As it is, private financial and non-financial debt outstanding has been contracting for nearly two years.

The financial system is still not functioning properly—small banks continue to fail in large numbers, bank lending is weak and the private-label residential mortgage and commercial securities markets remain largely dormant—but it is stable. Evidence of normalization in the financial system is evident in the sharp narrowing of credit spreads. For example, the spread between Libor (the rate banks charge each other for loans) and Treasury bills hit a record 450 basis points at the height of the financial panic (see Chart 1). Today, despite the uncertainty created by the European debt crisis, the Libor-T-Bill bill spread is nearly 25 basis points, close to the level that prevailed prior to the crisis. Nonetheless, while depository institutions are lending more freely to each other, they remain reluctant to extend credit to businesses and consumers.

A variety of other policy initiatives helped restore stability to the financial system. The unprecedented monetary policy response, the bank stress tests, and the FDIC's guarantees on bank debt issuance as well as higher deposit insurance limits were all important. Yet none of these efforts would likely have succeeded without the CPP, which bought the time necessary to allow these other efforts to work.

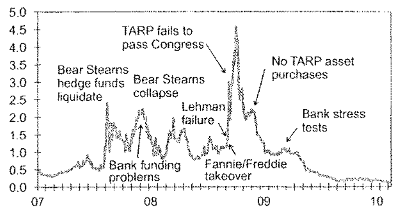
Toxic assets

TARP has also been useful in mitigating systemic risks posed by the mountain of toxic assets owned by financial institutions.[14] Because institutions are uncertain of these assets' value and thus of their own capital adequacy, they have been less willing and able to provide credit.

The Fed's TALF program and Treasury's PPIP program provided favorable financing to investors willing to purchase a wide range of "toxic" assets. TARP funds were available to cover the potential losses in both programs. While neither program resulted in a significant amount of activity, they did help support asset prices as interest rates came down and spreads over risk-free Treasuries narrowed.[15] When TALF was announced in late 2008, the option-adjusted spread on auto-loan-backed securities stopped rising, topping out at a whopping 1,000 basis points (see Chart 2). By the time of the first TALF auction in early 2009, the spread had narrowed to 900 basis points, and it is now hovering close to 100 basis points. While

Chart 1: The Financial System Has Stabilized

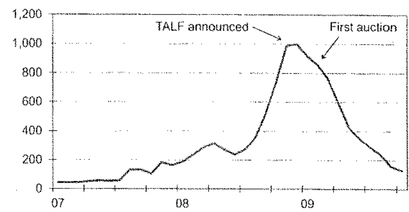
Difference between 3-mo Libor and Treasury bill yields



Sources: Federal Reserve Board, Moody's Analytics

Chart 2: TALF Caused ABS Spreads to Narrow

Automobile ABS, option-adjusted spread, bps



Source: BofA Merrill Lynch

this narrowing of spreads was driven by a multitude of factors, arguably most important was the TALF.

The TARP also supported asset prices by forestalling the collapse of AIG, Bank of America, and Citi. Had these huge institutions failed, they might have been forced to dump their toxic assets at fire-sale prices, thereby imperiling other institutions that owned similar assets. In a sense, the troubled assets owned by AIG, BofA and Citi were quarantined so they would not infect asset markets and drive prices even lower. The government still owns nearly all of AIG, and although it has been selling its Citi shares, it continues to hold a sizable ownership stake.[16]

Auto bailout

TARP also was instrumental in assuring the orderly bankruptcy of GM and Chrysler and supporting the entire motor vehicle industry. Without money from the TARP, these firms would have very likely ceased as going concerns. The liquidation of GM and Chrysler would have in turn caused the bankruptcy of many vehicle part suppliers and, as a result, Ford as well.

Without government help, the vehicle manufacturers' Chapter 11 restructurings would have likely turned into Chapter 7 liquidations. Their factories and other operations would have been shut down and their assets sold to pay creditors. The collapse in the financial system and resulting credit crunch made financing the companies while they were in the bankruptcy process all but impossible. Debtor-in-possession (DIP) financing is critical to pay suppliers, finance inventories, and meet payroll while companies restructure. It is risky even in good times, so DIP lenders become senior creditors when a bankruptcy court distributes a firm's assets and can charge high rates and fees for their risks. Yet in the credit crunch that prevailed in early 2009, it is unlikely that DIP lenders would have taken such risks. Money from the TARP was necessary to fill this void.

GM and Chrysler have now been significantly rationalized and appear to be financially viable even at depressed current vehicle sales rates. GM has already begun to repay its government loans, and there is even discussion of when it will go public. Ford, which did not take government funds, is doing measurably better, and conditions across the industry have improved. Production is up and employment has stabilized (see Chart 3). This seemed unlikely just a year ago, and TARP was instrumental in the turnaround.

Foreclosure crisis

The TARP has been less successful, at least so far, in combating the residential mortgage foreclosure crisis. TARP is funding the Housing Affordability Stability Plan, or HASP, which consists of the Home Affordability Mortgage Plan (HAMP) and the Home Affordability Refinancing Plan (HARP).

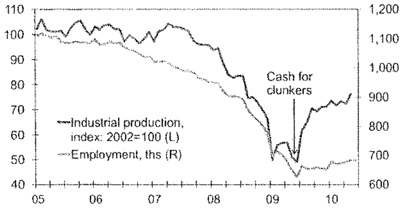
The HAMP's original strategy was to encourage homeowners, mortgage servicers, and mortgage owners to modify home loans, primarily by temporary reductions in interest rates and thus in monthly payments—not by principal reductions. Yet take-up on the HAMP plan has fallen well short of what policymakers hoped.[17] The reason: Many home loans are so deeply under water that, even with modifications that lower monthly payments, they face high probabilities of default. Thus, mortgage servicers and creditors have little interest in making such modifications. To address this impediment, the administration made a number of changes to HAMP in spring 2010 to encourage principal write-downs. While this approach is expected to work better, it is too soon to tell.

The idea behind the HARP was to allow Fannie and Freddie to refinance loans they own or insure—even on homes whose market values have sunk far below the amounts owed. The take-up on the HARP has been particularly low because homeowners need to pay transaction costs for the refinancing and are not permitted to capitalize these costs into their mortgage principal. Some homeowners whose credit characteristics have weakened also find that the interest rates offered for refinancing are not low enough to cover the transaction costs in a reasonable time.

The HAMP and other foreclosure mitigation efforts have slowed the foreclosure process a bit. Mortgage servicers and owners have been working to determine which of their troubled mortgage loans might qualify for the various plans. The slower pace of foreclosures and short sales has resulted in

Chart 3: Autos Go From Free Fall to Stability

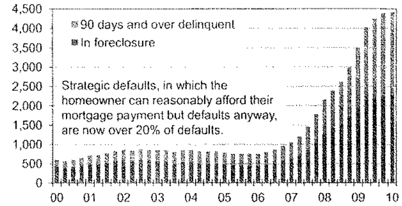
Motor vehicles and parts



Sources: Federal Reserve Board, BLS

Chart 4: The Foreclosure Crisis Continues

First mortgage loans, ths



Sources: Equifax, Moody's Analytics

more stable house prices this past year, but troubled loans are backing up in the foreclosure pipeline. As of the end of June 2010, credit file data show an astounding 4.3 million first mortgage loans in the foreclosure process or at least 90 days delinquent (see Chart 4). For context, there are 49 million first mortgage loans outstanding, so this is almost 9% of the total. Mortgage servicers and owners are deciding that many of these loans are not viable candidates for the HAMP plan, and have begun pushing these loans towards foreclosure. Thus foreclosures and short sales are expected to increase measurably in the coming months, which would put even more downward pressure on house prices.

Policymakers are hoping the revised HAMP and other private mitigation efforts will work well enough to reduce foreclosures and short sales and thus prevent house price declines from undermining the broader economy.

Fiscal Stimulus

Like the TARP, the government's fiscal stimulus has grown unpopular. There appears to be a general perception that, at best, the stimulus has done little to turn the economy around, and at worst, it has funded politicians' pet projects with little clear economic rationale. In fact, the fiscal stimulus was quite successful in helping to end the Great Recession and to accelerate the recovery. While the strength of the recovery has been disappointing, this speaks mainly to the severity of the downturn. Without the fiscal stimulus, the economy would arguably still be in recession, unemployment would be well into the double digits and rising, and the nation's budget deficit would be even larger and still rising.

In the popular mind, the fiscal stimulus is associated with the American Recovery and Reinvestment Act—the $784 billion package of temporary spending increases and tax cuts passed in February 2009. In fact, the stimulus began in the spring of 2008 with the mailing of tax rebate checks.[18] Smaller stimulus measures followed the ARRA, including cash for clunkers, a tax credit for homebuyers that expired in June, a payroll tax credit for employers to hire unemployed workers, and other measures. In total, the stimulus provided under both the Bush and Obama administrations amounts to more than $1 trillion, about 7% of GDP (see Table 10).[19]

Some form of fiscal stimulus has been part of the government's response to nearly every recession since the 1930s, but the current effort is the largest. For comparison, the stimulus provided during the double-dip downturn of the early 1980's equaled almost 3% of GDP, and the stimulus provided a decade ago after the tech bust totaled closer to 1.5% of GDP.[20]

Extended or expanded unemployment insurance benefits have been a common form of stimulus, as has financial help to state and local governments. Since nearly all states are legally bound to balance their budgets, and since nearly all face significant budget shortfalls during recessions, they would have been forced to cut spending and raise taxes even more in the absence of federal aid, thus adding to the economy's weakness. Aside from additional UI and state aid, fiscal policymakers have generally relied more on tax cutting than on increased spending as a stimulus. The massive public works projects of the Great Depression are an exception.

The unusually large amount of fiscal stimulus provided recently is consistent both with the extraordinarily severe downturn and the reduced effectiveness of monetary policy as interest rates approach zero. The Federal Reserve's job is further complicated by the still significant risk of deflation. Falling prices cause *real* interest rates to rise, since the Fed can not lower nominal rates further. This situation stands in sharp contrast to the early 1980s—the last time unemployment reached double digits—when interest rates and inflation were both much higher and the Federal Reserve had substantially more latitude to adjust monetary policy.

The greater use of government spending rather than tax cuts as a fiscal stimulus during the current period is also consistent with the record length of the recession and the persistently high unemployment.[21] Historically, the principal weakness of government spending, for example infrastructure projects, is that it takes too long to affect economic activity. Given the length and depth of the recent recession, however, the time-lag issue is less of a concern.

Tax cuts

Tax cuts have played an important role in recent stimulus efforts. Indeed, tax cuts

Table 10

Fiscal Stimulus Policy Efforts

$ bil	Originally Committed	Currently Provided	Ultimate Cost
Total Fiscal Stimulus	1,067	712	1,067
Spending Increases	682	340	682
Tax Cuts	383	371	383
Economic Stimulus Act of 2008	170	170	170
American Recovery and Reinvestment Act of 2009	784	473	784
Infrastructure and Other Spending	147	56	147
Traditional Infrastructure	38	14	38
Nontraditional Infrastructure	109	42	109
Transfers to state and local governments	174	119	174
Medicaid	87	69	87
Education	87	51	87
Transfers to persons	271	109	271
Social Security	13	13	13
Unemployment Assistance	224	66	224
Food stamps	10	10	10
Cobra Payments	24	20	24
Tax cuts	190	188	190
Businesses & other tax incentives	40	40	40
Making Work Pay	64	62	64
First-time homebuyer tax credit	14	14	14
Individuals excluding increase in AMT exemption	72	71	72
Cash for Appliances	0.3	0.2	0.3
Cash for Clunkers	3	3	3
HIRE Act (Job Tax Credit)	17	8	17
Worker, Homeownership, and Business Assistance Act of 2009	91	57	91
Extended of unemployment insurance benefits (Mar 16)	6	6	6
Extended of unemployment insurance benefits (Apr 14)	12	12	12
Extended of unemployment insurance benefits (May 27)	3	3	3
Extended of unemployment insurance benefits (July 22)	34		34
Extended/expanded net operating loss provisions of ARRA*	33	33	33
Extended/extension of homebuyer tax credit	3	3	3
Department of Defense Appropriations Act of 2010	>2	>3	>2
Extended guarantees and fee waivers for SBA loans	>1	>1	>1
Expanded COBRA premium subsidy	>1	>1	>1

Sources: CBO, Treasury, Recovery.gov, IRS, Department of Labor, JCT, Council of Economic Advisors, Moody's Analytics for individuals and businesses account for 36% of the total stimulus, nearly $400 billion. Lower- and middle-income households have received tax rebate checks, paid less in payroll taxes, and benefited from tax credits to purchase homes and appliances. All together, individuals will receive almost $300 billion in tax cuts.

The cash for clunkers program and housing tax credits were particularly well-timed and potent tax breaks. Cash for clunkers gave households a reason to trade in older gas-guzzling vehicles for new cars in the summer of 2009, when GM and Chrysler were struggling to navigate bankruptcy. Sales jumped, clearing out inventory and setting up a rebound in vehicle production and employment. The program was very short-lived, however, and sales naturally weakened in the immediate wake of the program. But they have largely held their own since.

Three rounds of tax credits for home purchasers were also instrumental in stemming the housing crash. The credit that expired in November was particularly helpful in breaking the deflationary psychology that was gripping the market. Until that point, potential homebuyers were on the sidelines, partly because they expected prices to fall even further. The tax credit offered a reason to buy sooner, helping to stabilize house prices. The credit was especially helpful in preventing the large number of foreclosed properties then hitting the market from depressing prices. The expiration of the most recent tax credit, in June, was followed by a sharp decline in sales. But this may have been partly due to potential homebuyers expecting Congress to offer yet another tax credit.

The fiscal stimulus also provided businesses with approximately $100 billion in tax cuts, including accelerated depreciation benefits and net operating loss rebates. While such incentives have historically not been particularly effective as a stimulus—they do not induce much extra near-term investment—they may be more potent in the current environment, when businesses face severe credit constraints.[22] It is also important to consider that accelerated-depreciation and operating-loss credits are ultimately not very costly to taxpayers. The tax revenue lost

TABLE 11

Fiscal Stimulus Bang for the Buck

Tax Cuts	Bang for the Buck
Non-refundable Lump-Sum Tax Rebate	1.01
Refundable Lump-Sum Tax Rebate	1.22
Temporary Tax Cuts	
Payroll Tax Holiday	1.24
Job Tax Credit	1.30
Across the Board Tax Cut	1.02
Accelerated Depreciation	0.25
Loss Carryback	0.22
Housing Tax Credit	0.90
Permanent Tax Cuts	
Extend Alternative Minimum Tax Patch	0.51
Make Bush Income Tax Cuts Permanent	0.32
Make Dividend and Capital Gains Tax Cuts Permanent	0.37
Cut in Corporate Tax Rate	0.32
Spending Increases	**Bang for the Buck**
Extending Unemployment Insurance Benefits	1.61
Temporary Federal Financing of Work-Share Programs	1.69
Temporary Increase in Food Stamps	1.74
General Aid to State Governments	1.41
Increased Infrastructure Spending	1.57
Low Income Home Energy Assistance Program (LIHEAP)	1.13

Source: Moody's Analytics

Note: The bang for the buck is estimated by the one year $ change in GDP for a given $ reduction in federal tax revenue or increase in spending.

to the Treasury upfront is largely paid back in subsequent years when businesses have higher tax liabilities.

Government spending increases

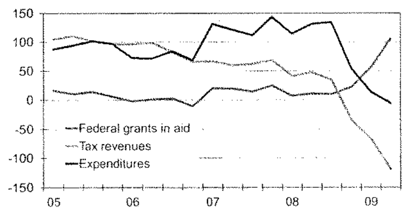
A potpourri of temporary spending increases were also included in the fiscal stimulus. Additional unemployment insurance beyond the regular 26-week benefit period has been far and away the most costly type of stimulus spending, with a total price tag now approaching $300 billion. The high rate and surprisingly long duration of unemployment—well over half the jobless have been out of work more than 26 weeks—have added to the bill.

Yet UI benefits are among the most potent forms of economic stimulus available. Additional unemployment insurance produces very high economic activity per federal dollar spent (see Table 11).[23] Most unemployed workers spend their benefits immediately; and without such extra help, laid-off workers and their families have little choice but to slash their spending. The loss of benefits is debilitating not only for unemployed workers, but also for friends, family, and neighbors who may have been providing financial help themselves.

The fiscal stimulus also provided almost $50 billion in other income transfers, including Social Security, food stamps, and COBRA payments to allow unemployed workers to retain access to healthcare. Food stamps are another particularly powerful form of stimulus, as such money flows quickly into the economy. COBRA and Social Security

Chart 5: States Avoid Massive Budget Cutting

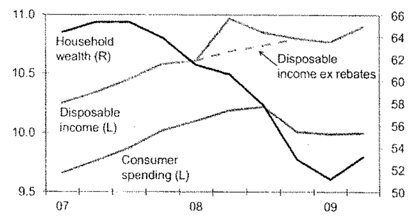
Change yr ago, $ bil



Source: BEA

Chart 6: Tax Cuts Have Supported Spending

$ tril



Sources: BEA, FRB, Moody's Analytics

have smaller multipliers, as not all of the aid is spent quickly.

Strapped state and local governments have also received significant additional aid through the Medicaid program, which states fund jointly with the federal government, and through education. As part of the ARRA, states will receive almost $175 billion through the end of 2010. This money went a long way to filling states' budget holes during their just-ended 2010 fiscal year (see Chart 5). States were still forced to cut jobs and programs and raise taxes, but fairly modestly given their budget problems. Budget cutting has intensified in most states this summer, because the budget problems going into fiscal 2011 are still massive, and prospects for further help from the federal government are dwindling.

State and local government aid is another especially potent form of stimulus with a large multiplier. It is defensive stimulus, forestalling draconian cuts in government services, as well as the tax increases and weaker consumer spending that would have surely occurred without such help. In the nomenclature of the debate surrounding the merits of the stimulus, this stimulus *saves* jobs rather than *creates* them.

Funds for infrastructure projects generally do not generate spending quickly, as it takes time to get projects going. That is not a bad thing: rushing raises the risks of financing unproductive projects. But infrastructure spending does pack a significant economic punch, particularly to the nation's depressed construction and manufacturing industries. Almost $150 billion in ARRA infrastructure spending is now flowing into the economy, and is particularly welcome, as the other stimulus fades while the economy struggles.

The ARRA has also been criticized for including a hodgepodge of infrastructure spending, ranging from traditional outlays on roads and bridges to spending on electric power grids and the internet. Given the uncertain payoff of such projects, diversification is probably a plus. As Japan taught everyone in the 1990s, infrastructure spending produces diminishing returns. Investing only in bridges, for example, ultimately creates bridges to nowhere.

Arguments that temporary tax cuts have not supported consumer spending are also overstated. This is best seen in the 2008 tax rebates. While these payments significantly lifted after-tax income, consumer spending did not follow, at least not immediately. One reason was the income caps attached to the rebates. Higher-income households did not receive them, and because of rapidly falling stock and house prices, these same households were saving significantly more and spending less (see Chart 6). The saving rate for households in the top quintile of the income distribution surged from close to nothing in early 2007 to double digits by early 2008. Lower- and middle-income households did spend a significant part of their tax rebates, but the sharp pullback by higher-income households significantly diluted the impact of the tax cut on overall spending.

Appendix B: Methodological Considerations

The Moody's Analytics model of the U.S. economy was used to quantify the economic impact of the various financial and fiscal stimulus policies implemented during the crisis and recession. This model is used regularly for a range of purposes, including economic forecasting, scenario and sensitivity analysis, and most relevant for the work presented here, the assessment of the economic impact of monetary and fiscal policies. It is used by a wide range of global companies, federal, state and local governments, and policymakers.

The model was already well equipped to assess the economic impact of the various fiscal stimulus measures. But several adjustments to the model were necessary to deal with the financial policies, many of which were innovative. In the context of the model, this mainly meant estimating the effects of the policies on credit conditions. Credit conditions are measured by interest rates, including both Treasury rates and credit spreads, and bank underwriting standards. The key financial policy levers included in the model are Federal Reserve assets, the capital raised by financial institutions (as a result of the CPP and the stress tests), the conforming mortgage loan limit (which was increased as part of fiscal stimulus), and the FHA share of purchase mortgage originations, which surged as the private mortgage market collapsed.

In broad terms, here is how the model works: In the short run, fluctuations in economic activity are determined primarily by shifts in *aggregate demand*, including personal consumption, business investment, international trade and government expenditures. The level of resources and technology available for production are taken as given. Prices and wages adjust slowly to equate aggregate demand and supply. In the long run, however, changes in *aggregate supply* determine the economy's growth potential. Thus the rate of expansion of the resource and technology base of the economy is the principal determinant of economic growth.

Aggregate demand

Real consumer spending is modeled as a function of real household cash flow, housing wealth, and financial wealth.[24] Household cash flow equals the sum of personal disposable income, capital gains realizations on the sale of financial assets, and *net* new borrowing—including mortgage equity withdrawal. Changes in household cash flow were substantially greater than those of disposable income during the boom and the bubble.

Mortgage equity withdrawal was a major difference between cash flow and disposable income in the boom. It is in turn driven by capital gain realizations on home sales and home equity borrowing—both of which are determined by mortgage rates and the availability of mortgage credit (see Chart 7). Fixed mortgage rates are modeled as a function of the 10-year Treasury yield, the refinancing share of mortgage originations, the foreclosure rate, and the value of Federal Reserve assets.[25] The latter variable was added to the model explicitly for this exercise. Including Fed assets captures the impact of the Fed's credit easing efforts, which involved expanding the assets it owns largely through the purchases of Treasury bonds and mortgage securities. The availability of mortgage credit is measured by the Federal Reserve's Senior Loan Officer Survey question regarding residential mortgage underwriting standards; it is modeled as a function of the foreclosure rate, the conforming loan limit, and the FHA share of purchase originations.[26]

These policy efforts have also had significant impacts on residential investment, which is determined in the model by household formation, the inventory of vacant homes, the availability of credit to homebuilders, and the difference between house prices and the costs of construction. Housing starts closely follow the number of household formations, abstracting from the number of demolitions and second and vacation homes. Inventories of homes depend significantly on home sales, which are driven by real household income, the age composition of the population, mortgage rates, and the availability of mortgage credit. The availability of credit to builders is also important, particularly in the current period given the reluctance of lenders to make construction and land development loans. The availability of such loans is proxied by the Federal Reserve's Senior Loan Officer Survey question regarding commercial real estate mortgage underwriting standards; it is modeled as a function of the delinquency rate on commercial banks' commercial real estate mortgage loans, and the spread between three-month Libor and the three-month Treasury bill yield. This so-called TED spread is one of the two key credit spreads in the Moody's model and thus one main channel via which the unconventional financial policies operated.

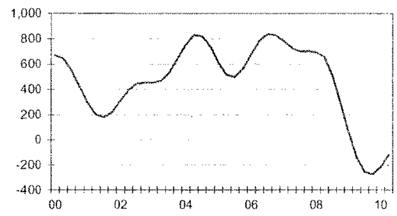
Business investment is another important determinant of aggregate demand and the business cycle. It both responds to and amplifies shifts in output. Investment also influences the supply side of the economy since it is the principal determinant of potential output and labor productivity in the long run. Investment spending not only adds to the stock of capital available per worker, but also determines the extent to which the capital stock embodies the latest and most efficient technology.

The investment equations in the model are specified as a function of changes in output and the cost of capital.[27] The cost of capital is equal to the implicit cost of leasing a capital asset, and therefore reflects the real after-tax cost of funds, tax and depreciation laws, and the price of the asset. More explicitly, the cost of funds is defined as the weighted-average after-tax cost of debt and equity capital. The cost of debt capital is proxied by the "junk" (below investment grade) corporate bond yield, which is the second of the two key credit spreads in the Moody's model. The cost of equity capital is the sum of the 10-year Treasury bond yield plus an exogenously set equity risk premium. Changes in the cost of capital, which have a significant impact on investment, reflect the fallout from the financial crisis, any benefit from the various business tax cuts, and the policy efforts to stabilize the financial system.

The availability of credit is also an important determinant of business investment and is measured by the Federal Reserve's Senior

Chart 7: Mortgage Equity Withdrawal Falls

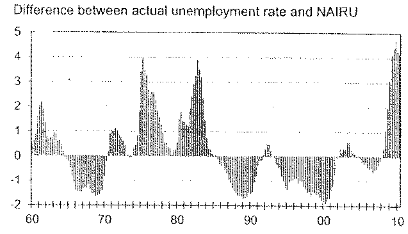
$ bil, annualized



Sources: BEA, Equifax, Moody's Analytics

Chart 8: The Output Gap Is Wide

Difference between actual unemployment rate and NAIRU



Sources: BLS, Moody's Analytics

Loan Officer Survey question regarding underwriting standards for commercial and industrial loans. This is modeled as a function of the interest coverage ratio—the share of nonfinancial corporate cash flow going to servicing debt—and the three-month TED spread.

The international trade sector of the model captures the interactions among foreign and domestic prices, interest rates, exchange rates, and product flows.[28] The key determinants of export volumes are global real GDP growth and the real trade-weighted value of the U.S. dollar. Real imports are determined by specific domestic spending categories and relative prices. Global real GDP growth comes from the Moody's Analytics international model system and is provided exogenously to the U.S. model. The value of the dollar is determined endogenously based on relative U.S. and global interest rates, global growth, and the U.S. current account deficit.

Most federal government spending is treated as exogenous in the model since legislative and administrative decisions do not respond predictably to economic conditions. The principal exception is transfer payments for unemployment benefits, which are modeled as a function of unemployment and net interest payments. Total federal government receipts are the sum of personal tax receipts, contributions for social insurance, corporate profits tax receipts, and indirect tax receipts. Personal taxes (income plus payroll) account for the bulk of federal tax collections, and are equal to the product of the average effective income tax rate and the tax base, which is defined as personal income less nontaxable components of income including other labor income and government transfers. The average effective tax rate is modeled as a function of marginal rates, which are exogenous and form a key policy lever in the model.

State and local government spending is modeled as a function of the sum of tax revenues, which are the product of average effective tax rates and their corresponding tax base, and exogenously determined federal grants-in-aid. Given balanced budget requirements in most states, government spending is closely tied to revenues. Grants-in-aid are also an important policy lever in an assessment of the economic impact of fiscal stimulus.

Aggregate supply

The supply side of the economy describes the economy's capabilities for producing output. In the model, aggregate supply or potential GDP is estimated from a Cobb-Douglas production function that combines factor input growth and improvements in total labor productivity. Factor inputs include labor and business fixed capital. Factor supplies are defined by estimates of the full-employment labor force and the existing capital stock of private nonresidential equipment and structures. Total factor productivity is calculated as the residual from the Cobb-Douglas production function, estimated at full employment. Potential total factor productivity is derived from a regression of actual TFP on business-cycle specific trend variables.

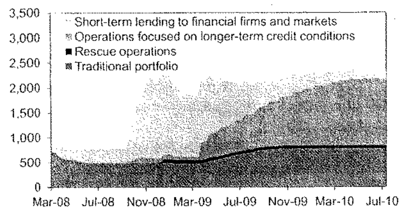
The key unknown in estimating aggregate supply is the full-employment level of labor, which is derived from a measure of potential labor supply and the long-run equilibrium unemployment rate. This rate, often referred to as the Non-Accelerating Inflation Rate of Unemployment, or NAIRU, is the unemployment rate consistent with steady price and wage inflation. It is also the unemployment rate at which actual GDP equals potential GDP. NAIRU, which is estimated from an expectations-augmented Phillips curve, is currently estimated to be near 5.5%.[29] Given the current 9.5% unemployment rate, the economy is operating well below its potential (see Chart 8). This output gap is the key determinant of prices in the model. It is thus not surprising that inflation is decelerating, raising concerns that the economy may suffer outright deflation.

Monetary policy, interest rates and stock prices

Monetary policy is principally captured in the model through the federal funds rate target.[30] The funds rate equation is an FOMC reaction function that is a modified Taylor rule. In this framework, the real funds rate target is a function of the economy's estimated real growth potential, the difference between the actual and target inflation rate (assumed to be 2% for core CPI), and the difference between the actual unemployment rate and NAIRU. This specification is augmented to include the difference between the presumed 2% inflation target and inflation expecta-

Chart 9: The Fed Expands Its Balance Sheet

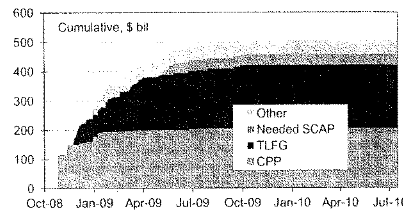
Composition of Federal Reserve's balance sheet, $ bil



Sources: Federal Reserve, Moody's Analytics

Chart 10: Capital Raised Thanks to Policy Support

Bank capital raised through:



Sources: Treasury, SEC, Moody's Analytics

tions, as measured by five-year, five-year-forward Treasury yields.

Because of the Federal Reserve's extensive use of quantitative easing to respond to the financial crisis, Federal Reserve assets were added to the model for this exercise. Fed assets are specified as a function of the federal funds rate target described above. When the funds rate implied by the equation falls below zero, the Fed's balance sheet expands. And the more negative the implied funds rate, the greater the assumed balance sheet expansion. Specifically, for every 100 basis points that the desired (but unachievable) funds rate becomes negative, the Fed is presumed to expand its balance sheet by $1.2 trillion.[31] At present, the implied funds rate is near negative 2%, which suggests that the Fed should be holding close to $3 trillion in assets—compared with the Fed's actual current holdings of $2.4 (see Chart 9).

The most important private short-term interest rate in the model is the three-month Libor rate, which in turn drives home-equity and credit-card lending rates as well as the rate on adjustable residential mortgages. The TED spread between three-month Libor and three-month Treasury bill yields (which is tied closely to the funds rate) is modeled as a function of the delinquency rate on commercial bank loans and leases, the market value of equity lost in failing financial institutions during the financial crisis, and the amount of capital raised by the banking system via the CPP and stress tests (see Chart 10). The latter variable was added explicitly for these simulations. The rationales are straightforward: As the delinquency rate increases, banks demand higher interest to lend to other banks. The equity lost in failing institutions captures the growing panic that investors felt as the crisis intensified. The capital raised by banks either from the federal government or in the equity market captures the benefit of the financial policy response in restoring stability to short-term funding markets.

The most important long-term interest rate in the model is the yield on the 10-year Treasury bond, which is a key determinant of both mortgage rates and corporate bond rates. The 10-year Treasury yield is modeled as a function of the federal funds rate, inflation expectations, the federal budget deficit as a share of GDP, and Federal Reserve assets; the latter was added to the model to capture the impact of recent quantitative easing efforts. Bond investors' expectations of future monetary policy are assumed to be driven by current inflation expectations and the federal government's future fiscal situation.

The junk bond yield is another important interest rate in the model, as it impacts businesses' cost of capital. It is driven by the 10-year Treasury yield, the interest coverage ratio for nonfinancial corporate businesses, and capacity utilization. Higher interest coverage—the greater the share of cash flow businesses must devote to meeting debt payments to remain current—and lower capacity utilization push junk yields up relative to the risk-free Treasury yield.

Stock prices, measured by the S&P 500 stock index, are modeled based on a traditional earnings discount model. The principal determinants of stock prices in this framework are thus corporate profits and the Baa corporate bond yield.[32] Changing stock prices have an important impact on consumer spending through the wealth effect and on business investment through the cost of capital.

Endnotes

JULY 28, 2010 1 P.M. CORRECTION: This article now contains corrected figures for our estimate of 2010 GDP with and without the stimulus. As the article now reflects, GDP in 2010 would be about 11.5% lower without the government's response, and the fiscal stimulus has raised GDP by about 3.4%.

1. Princeton University and Moody's Analytics, respectively. These affiliations are for identification only. None of the views expressed here should be attributed to any organization with which we are affiliated. The authors would also like to acknowledge the important assistance of Moody's Analytics economists Michael Bratus, Ryan Sweet and Steve Zeller.
2. The CBO's estimates of the economic impact of ARRA can be found at http://www.cbo.gov/ftpdocs/115xx/doc11525/05-25-ARRA.pdf. The Council of Economic Advisors' most recent estimates of the economic impact of ARRA can be found at http://www.whitehouse.gov/files/documents/cea_4th_arra_report.pdf.
3. Alan Krueger, the Assistant Treasury Secretary for Economic Policy, estimated that the capital injections into banks *alone* may have added roughly 900,000 to 1.8 million jobs. See his Remarks to the American Academy of Actuaries, Washington, DC, July 20, 2009 (at www.treasury.gov/offices/economic-policy/AK-Actuaries-07-20-2009.pdf) A Federal Reserve Bank of New York staff report estimated that the Fed's purchases of long-term assets (Treasury securities and MBS) *alone* lowered long-term interest rates on a range of securities by 30-80 basis, with effects on mortgage rates about 50 basis points higher than that. See Joseph Gagnon, Matthew Raskin, Julie Remache, and Brian Sack, "Large-Scale Asset Purchases by the Federal Reserve: Did They Work?," Federal Reserve Bank of New York Staff Report No. 441, March 2010.
4. The new credit facilities include the Term Auction Facility, the Term Securities Loan Facility, the Term Asset-Backed Securities Loan Facility, the Commercial Paper Funding Facility, the Money Market Investor Funding Facility, and currency swap lines.
5. These include, among others, the cash-for-clunkers tax incentive in the fall of 2009, the extension and expansion of the housing tax credit through mid-2010, the passage of a job tax credit through year-end 2010, and several extensions of emergency UI benefits.
6. We refer here to the *response* to the crisis, once it occurred. Many government policies and regulatory lapses contributed to bringing on the crisis, however.
7. The pace of change also explains why the fiscal stimulus will soon turn into a drag on economic growth. The government's policies have added just over $80 billion per quarter to the economy since late 2009, a flow that will dry up to essentially nothing over the next several quarters.
8. Under the baseline and no-financial-policy scenarios, an additional $80 billion in fiscal stimulus is assumed through mid-2011, including approximately $50 billion for additional emergency UI benefits, $25 billion in state government aid and $5 billion in other stimulus including increased funding for small business lending. It is also assumed under all the scenarios that tax rates rise only for the top 2% of income earners and that these higher rates are phased in over two years. In all the scenarios, monetary policy is treated endogenously, with the federal funds rate target constrained to be non-negative and the Fed engaging in credit easing consistent with the degree to which the model calls for a negative federal funds rate. The broad trade-weighted dollar is also endogenously determined and falls in the scenarios, supporting an improvement in the trade balance and cushioning the economic downturn. This benefit is overstated in the scenarios, however, as global economic growth excluding the U.S. is held exogenously in order to simplify the analysis.
9. We make no attempt to decompose the financial-policy effects into portions attributable to TARP, to the Fed's quantitative easing policies, etc.
10. The CBO's estimates of the economic impact of ARRA can be found at http://www.cbo.gov/ftpdocs/115xx/doc11525/05-25-ARRA.pdf.
11. See *The Wall Street Journal*, July 24, 2009.
12. The Treasury's Office of Financial Stability recently published updated cost estimates of TARP using publicly available data through March 31, 2010. *See* http://www.treas.gov/press/releases/tg713.htm. Treasury currently expects TARP losses to be $105 billion. If much of the projected loss on GM stock is recouped, this figure will drop substantially.
13. This is another huge sum. But remember that the three-stage commitment to AIG amounted to over $180 billion.
14. In our (apparently minority) view, it is unfortunate that TARP wasn't used more for its original purpose, namely the purchase of toxic assets from financial institutions using, for example, a reverse auction process. This idea was quickly shelved when the rapid unraveling of the financial system forced the Treasury to change objectives from asset purchases to direct capital infusions into financial institutions.
15. TALF has supported $58 billion in asset-backed securities, along with $12 billion of securitization for commercial mortgages. Using a combination of TARP and private capital, Public-Private Investment Funds have purchased, to date, $12 billion of securities from banks.

16. In April and May, Treasury sold roughly 20% of the government's stake for $6.2 billion, $1.3 billion above its cost. The Treasury is in the process of selling another 1.5 billion shares, and plans to liquidate the remainder of its stake in an orderly fashion by the end of 2010.
17. Introducing the HAMP in spring 2009, President Obama said he expected between 3 million and 4 million loan modifications. Even with the more recent changes to the plan, the number of permanent modifications is likely to be well under half that amount.
18. These costs do not include adjustments to the Alternative Minimum Tax, which was included as part of the ARRA, but which would have been passed by Congress regardless. They do include the added costs of providing unemployment insurance benefits, which were underestimated in the original cost estimate for the ARRA.
19. The U.S. hasn't been alone in using fiscal stimulus during the current period. Nearly all major economies did so, with total global fiscal stimulus approaching $5 trillion. The Chinese were the most aggressive, adding nearly twice as much stimulus as the U.S. as a share of GDP.
20. This includes only the cost of the tax cuts from 2001 to 2003. The tax cuts instituted in this period largely expire at the end of this year.
21. The Great Recession likely lasted at least 18 months between December 2007 and June 2009. This is the longest downturn since the Great Depression and compares with an average of 10 months for recessions since World War II. The recovery over the past year has also been among the weakest in the post war period.
22. See Cohen, D. and Cummins, J. "A Retrospective Evaluation of the Effects of Temporary Partial Expensing," Federal Reserve Board, Finance and Economics Discussion Series Working Paper No. 2006-19 (April 2006). Also see House C. and Shapiro, M. "Temporary Investment Tax Incentives: Theory with Evidence from Bonus Depreciation," NBER Working Paper 12514, September 2006.
23. These multipliers are calculated based on simulations of the Moody's Analytics macroeconomic model of the U.S. economy.
24. Consumer spending in the model is actually disaggregated into various durable goods, nondurable goods, and services categories.
25. The refinance share proxies for the prepayment risk in mortgage loans.
26. The Federal Reserve's Senior Loan Officer Survey is conducted quarterly. Loan officers are asked by the Fed how their underwriting standards and loan demand have changed since the last time they responded to the survey the quarter before. Equations for three questions from this survey were added to the model for the purposes of this study.
27. The specification is based largely on the neoclassical theory of the firm. Fixed investment is divided into five categories of producers' durable equipment, and nine categories of nonresidential structures. Additional drivers important to the different categories of investment are also included in the equations. Investment in industrial equipment, for example, is also driven by capacity utilization and investment in transportation equipment is driven by vehicle sales to account for vehicle purchases by vehicle lessors.
28. Exports in the model are divided into eight different categories and imports are divided into ten categories.
29. Estimates of NAIRU were closer to 5% before the recession. They have risen because the lengthening duration of unemployment is eroding the ability of jobless workers to return to the labor market, and because of the large number of underwater homeowners whose ability to relocate for employment is limited.
30. The federal funds rate equation is estimated over the period beginning in late 1987, which coincides with Alan Greenspan's and Ben Bernanke's tenures as chairman of the Federal Reserve. Prior to this period monetary policy was much less transparent, and for a time during the late 1970s and early 1980s was based on targeting money supply growth.
31. This result is consistent with research done by Goldman Sachs. See "No Rush for the Exit," Jan Hatzius, et al, Goldman Sachs Global Economics Paper No. 200, June 30, 2010. It is also consistent with results in "The Fed's Exit Strategy for Monetary Policy," Glenn Rudebusch, San Francisco Federal Reserve Board Economic Letter, 2010-18, June 14, 2010 http://www.frbsf.org/publications/economics/letter/2010/el2010-18.html.
32. The single-A corporate bond yield is used in the equation for the S&P 500 stock index instead of the junk corporate bond yield as the larger companies in the index have closer to a single-A rating. Single-A corporate bonds are modeled as a function of Baa bonds, which are in turn modeled as a function of junk corporate bonds.

The TARP Accountability and Disclosure Act
H.R. 1242
Representative Carolyn B. Maloney &
Representative Peter King

The complexity of the institutions receiving TARP funds combined with the volume and disparate nature of the information they report have made it difficult to capture a comprehensive overall understanding of how TARP funds are being used. Using current, proven technology and readily available information that is already being filed by the financial institutions receiving TARP funds, it is possible to transform that data into a consistent and standardized format hosting it in a single database, and thus see a more complete picture of the actions of TARP fund recipients and contractors. Most importantly, this information could be collected and disseminated in near real-time, enhancing its value as a regulatory tool and also as an oversight tool.

<u>Why do we need the TARP Accountability and Disclosure Act?</u>

- All Relevant Data Of Financial Filings Must Be Captured And Analyzed Regardless Of Reporting Form Or Type Of Text.

  The consolidation and transformation of data to one location and format creates an ~~efficient mechanism for oversight, audits and investigations. Data is currently~~ presented in filings to various agencies including: SEC filings, Federal Reserve Registration Data, FDIC Data, Over the Counter Trade Data, and Commodities Futures Trading Commission Data. The data sources required to perform transparency for the TARP initiative are presently housed in disparate agencies, systems, and formats. The relevant information may often be found in footnotes that are usually found in freeform text that require specialized manipulation to transform them into consistent information. These footnotes are required to identify key financial facts that, when transformed into consistent data can provide insight into the actual use of funds of a company even though it may not be apparent in the initial filing. 25

H.R. 1242 would collect all data in a consistent, standardized format so all financial activity would be transparent and traceable.

<u>How will the database work?</u>

- Useful Analysis and Transparency Should Include A Complete Profile of All Relevant Activity

  This database system will combine the government data with data that is collected by independent third party sources including corporate press releases, news articles, indexes, corporate profiles, and other non-government financial information. The combining of government and third party data will create a complete profile of the institution's financial application of TARP funds. It also provides the ability to monitor inconsistencies in near real time that may indicate the misuse of such funds at both the corporate and individual officer level.

H.R. 1242 will allow the Government and the Congress to use the most sophisticated and complete data analysis to create a data base, in a standardized format, which provides a complete picture of the actions of TARP fund recipients.

How will the database be used?

- In Order To Be A Timely And Rigorous Regulator, The Inspector General, GAO And The Congress Need Real Time Information.

The above information can be collected and disseminated in near real time in order to become not only a regulatory audit tool, but also a preventative oversight tool that can be used by GAO, the IG, the Congressional Oversight Committee and law enforcement to capture waste, fraud and abuse of TARP funds.

H.R. 1242 provides for a creation of a data base and auditing system that allows regulators to be proactive in the protection of taxpayer funds.

Who supports this bill?

The following organizations support H.R. 1242:

United States Chamber of Commerce
Center for Democracy and Technology
OMB Watch
Project On Government Oversight
Taxpayers for Common Sense
OpenTheGovernment.org
Institute for Policy Innovation
Competitive Enterprise Institute
NAACP
Mexican American Legal Defense and Education Fund (MALDEF)
National Puerto Rican Coalition (NPRC)
The Hispanic Federation
Information Technology Industry Council
Heritage Foundation
Americans for Tax Reform
Center for Fiscal Accountability
60 Plus Association
Alabama Policy Institute
American Shareholders Association
Americans for Limited Government
Americans for Prosperity
Caesar Rodney Institute
Center for Individual Freedom
Center-Right Coalition of Florida
Coalition Opposed to Additional Spending & Taxes
Council for Citizens Against Government Waste
Grassroots Institute of Hawaii
Illinois Alliance for Growth
Illinois Policy Institute
Institute for Liberty
Maine Heritage Policy Center
Mississippi Center for Public Policy
National Taxpayers Union
Oklahoma Council of Public Affairs, Inc.
Pelican Institute for Public Policy
Pioneer Institute for Public Policy Research

Mrs. MALONEY. I specifically would like to respond to the two problems that Mr. Barofsky mentioned in his testimony; first, the cost of TARP in terms of confidence in our Government, transparency and other management mistakes, and I would like to mention that I authored a bill in response to your first criticisms on this what would have computerized TARP in realtime so we would know where the finances are. It passed the House backed by the Chamber of Commerce and Labor, one of the few bills, and I truly believe we should do it for the entire financial system. If we can track where our package is in 2 seconds, we should be able to track where we are in our exposure in finances. I feel it is an important bill and one that we need to work on and revamp to the current status.

You also mentioned the too big to fail and the fact that your concerns that we may not have done enough. So I would like Mr. Massad to respond to this, specifically in the Dodd-Frank bill. And I was likewise on the Conference Committee with the chairman. We created a Financial Stability Oversight Council to monitor the systemic risk and to set criteria to identify institutions that may be heightened risk. I would like you to comment on the status of where that is.

We also, very importantly, established an orderly wind-down, similar to what we have in the FDIC, which was a huge success. We had two choices: we could either bail out an institution or let them fail. Neither was a good solution. We want to be able to wind them down as we were able to do with FDIC banks so successfully. And I want to know are the rules in shape and where does that stand.

Third, we imposed capital requirements and leverage ratios to ensure that large institutions aren't taking excessive risk. I believe those rules are coming out in July. Correct me if I am wrong. And where does that stand? Where do you think the leverage and capital requirements will come out, in your best judgment?

Last, we called upon the SEC to come up and we gave them, actually, new powers and authority and resources to go after bad actors so that we could find the next Bernie Madoff and help protect our system.

So I would like you to respond to where these initiatives stand. What do you recommend, if anything else, we need to do to protect us from too big to fail, as was pointed out in his testimony? And, if you have enough time, could you respond to TARP as it relates to the taxpayer? We know it was a great deal for our economy; it was a great deal for averting economic risk. I am the daughter of two parents who suffered in the Depression. Their stories were terrible. We averted that in our economy, but was it a good deal for the taxpayer?

Thank you very much for your service.

Mr. MASSAD. Certainly, Congresswoman, I would be happy to respond to all those things. Let me start, perhaps, with the last point. I appreciate that people that are still suffering from this crisis, and there are many, may not feel that TARP didn't do anything for them; and Mr. Barofsky also has asked what did it do for Main Street. I think the study you pointed out, the Zandi study, makes it——

Chairman ISSA. I would ask unanimous consent for an additional 1 minute for the witness to respond. Without objection, so ordered.

Mr. MASSAD. Thank you, Mr. Chairman.

The study makes it very clear we would have entered into a second Great Depression. We could have faced unemployment, in their estimate, above 16 percent; other people have said 25 percent. The fact that we averted that is a real benefit to Main Street. The fact that people can now borrow again, when they couldn't as a result of this crisis, is a benefit to Main Street. The fact that we have an auto industry in this country and we saved a million jobs, not just at the auto companies, but at their suppliers, is a benefit to Main Street. So there are a number of benefits to Main Street. I don't think one has to look very far to realize that.

As to the progress in implementing Dodd-Frank, a lot of work is going on. I am not responsible for that, but I am happy to tell you what I know and to make sure that the proper officials of Treasury give you additional information. But the Financial Stability Oversight Council has been meeting actively and developing a number of rulemakings to address these issues, and they have the powers to regulate systemic risk and to look at what are the emerging trends in our financial system that need to be addressed.

So I think you will see a lot of work going on there. As to capital ratios, they are working on that also. Those will be higher. They are already higher. In other words, our financial system today is much better capitalized than it was in the fall of 2008, and many of the institutions are much better capitalized than their foreign competitors.

The other thing I want to note is——

Chairman ISSA. If you could summarize briefly, please.

Mr. MASSAD. Certainly.

On small banks, we funded over 400 small banks under TARP, and that is another benefit to Main Street because those banks help local communities, small businesses, and families.

And as to Congressman McHenry's point on the SBLF, obviously, Treasury supported this new fund, and I think the only issue is a minor one that Mr. Barofsky is raising, because, actually, Treasury does make a new credit decision on whether a TARP recipient is eligible. If a TARP recipient hasn't paid its dividends, it is not allowed to refinance. So there is a new credit decision made. He is just raising a particular point which we felt the statute did not allow us to do.

Chairman ISSA. I thank the gentleman.

The Chair now recognizes the gentleman from Ohio, Mr. Jordan, for 5 minutes.

Mr. JORDAN. Thank you, Mr. Chairman.

I want to thank the gentlemen for being with us today and, Mr. Barofsky, you and your staff in particular for the integrity and professionalism that you bring to your job. We certainly appreciate that. Your comments earlier were that the HAMP and the making home affordable programs, their performance remarkably dispiriting.

In today's Journal there is a quote that the foreclosure efforts at Treasury has been beset by problems from the outset and, despite frequent retooling, continues to fall dramatically short of any meaningful standard of success. The article goes on to mention about the FHA short refinance program, which started last fall and has helped 15 people.

So I guess my question is at what point do we say, hey, this just isn't working, this just isn't getting the job done? Would we be better off just discontinuing the whole program? After 3 years, three to four million goal, a few hundred thousand in permanent modification have actually had help. The Treasury talks about now the metric they are using is offering people help, versus actually providing it. At what point do we say, hey, this is just not working, let's end this program?

Mr. BAROFSKY. I continue to be a glass half full type of person.

Mr. JORDAN. Well, based on your comments on this, Mr. Barofsky, you wouldn't be a glass half full, you would be a glass 2 percent full, or 1 percent full.

Mr. BAROFSKY. That is true.

Mr. JORDAN. I am an optimistic guy too, we live in America, but that is really stretching it.

Mr. BAROFSKY. Well, I think that hope is slipping away, and I think that if Treasury doesn't respond to some of these things in a quick manner, your suggestion of ending the program and others' suggestions is just going to become a louder and louder chorus, and understandably so.

And I think the way for Treasury to respond to that is not to keep clinging for these non-credible declarations of success, and be straightforward and honest and say this is where we think this program will be at the end of 2012 or at the end of 2017, when the program is done; this is the number of people that we intend to have sustainable permanent modifications; this is how we are going to get to that number. Then you and this committee and the Congress and the American people can make the evaluation is it worth it. Is it worth it to continue. I think if they fail to do so you are probably dead-on right.

Mr. JORDAN. You have more patience than I have. In fact, yesterday I introduced, also the co-sponsorship of the chairman and the ranking member on the committee, Congressman McHenry, we introduced legislation to end the HAMP program. We just think any objective look at this, it doesn't warrant continued spending of taxpayer dollars.

Now, I want to be clear on a couple things. You have jurisdiction over the $45 billion in the TARP program that affects the foreclosure programs, HAMP being the biggest one. But there is also $25 billion that is available to Treasury in the Housing and Economic Recovery Act. Is that accurate?

Mr. BAROFSKY. That money is money that goes to Fannie and Freddie.

Mr. JORDAN. OK. And I understand this is not your jurisdiction, but to the extent you know, has any of that money been applied to or used in any way for foreclosure prevention type programs at Treasury?

Mr. BAROFSKY. Yes.

Mr. JORDAN. And, if so, are the results similar to what we have seen in HAMP?

Mr. BAROFSKY. Well, actually, yes. When we are talking about HAMP, we are really talking about both components, the GSE money, which is not funded through the taxpayers,——

Mr. JORDAN. Right.

Mr. BAROFSKY [continuing]. And then the TARP.

And, frankly, to date, the GSE part of the program is doing better than the TARP part of the program. Of this 520,000, approximately, or 540,000 of ongoing permanent modifications, more than half of those are attributable to Fannie and Freddie and the GSE. It is only about 220,000, 230,000 modifications that are actually TARP permanent modifications. So there is activity over there, and we detail in our report, we break all these numbers down from GSE versus non-GSE, including how much money the GSEs have reported that they have spent on these modifications providing to servicers.

Mr. JORDAN. But the bottom line is there is approximately $70 billion that has been appropriated for this type of program, the HAMP program. $70 billion, not $45, $70 billion, and $1 billion is all that has gone out the door for a program that has hurt people it is supposed to help and, in your definition, remarkably dispiriting program, what I would call a colossal failure. Is that accurate?

Mr. BAROFSKY. Yes. And as I said, I certainly understand your frustration, and I share your frustration. I just hope the Treasury can hear what you are saying and hear these legislative intent, and come up and be honest about where this program is going, if it is going anywhere.

Mr. JORDAN. And let me just finish this, I have 15 seconds. And to put it all in context, $70 billion appropriated for this, not helping the people it is designed to help, total failure. The guy who is charged with inspecting it understands total failure, at a time we have a $14 trillion national debt. At some point we have to say enough is enough, let's end this program.

Mr. Chairman, I yield back.

Chairman ISSA. I thank the gentleman.

The Chair now yields to the gentleman from Ohio, Mr. Kucinich, 5 minutes.

Mr. KUCINICH. Mr. Massad, isn't it true that HAMP's performance is dependent upon the voluntary willingness of mortgage servicers to give distressed borrowers loan modifications?

Mr. MASSAD. Yes, that is correct.

Mr. KUCINICH. Mr Barofsky, isn't it true that private mortgage servicers have found creative ways to frustrate attempts by distressed borrowers to save their homes?

Mr. BAROFSKY. There have certainly been problems with mortgage servicers.

Mr. KUCINICH. Is that a yes or no?

Mr. BAROFSKY. I don't know if it has been creative, but it certainly has happened.

Mr. KUCINICH. Since it is readily apparent that the party really responsible for HAMP's performance is private industry that won't give consumers a fair shake, I can't understand why we don't have a representative from the servicing industry to explain that industry today. The minority requested that JP Morgan Chase, a major servicer, appear today, but the chairman refused, and I don't know how we can have effective oversight for Congress or the American public, how they can really understand the Federal response to the foreclosure crisis, which depends on the private sector, without asking the private industry to explain their actions that are impeding this program.

Chairman ISSA. Would the gentleman yield?

Mr. KUCINICH. If the Chair will let me have my time afterwards.

Chairman ISSA. Of course. The Chair made a decision that today would be fully involved with the Government's side and the Special IG's report. We do intend on having, among others, servicers and a review of the HAMP program. This is but the first of our discovery. And I appreciate the gentleman's comments and yield back and will add 20 seconds.

Mr. KUCINICH. I appreciate that.

Now, SIGTARP's report and other reports of abuses by loan servicers, Mr. Chairman, raises serious concerns that these mortgage providers may be engaged in a pattern of abuse.

Mr. Barofsky, I would like to request that your office conduct a specific audit on this issue.

And I would like to, at this point, ask the Chair if you would join with me in this request, since you are saying that you are willing to go forward with looking at the mortgage servicers.

Chairman ISSA. I will certainly consider it. Would you give me the request in writing?

Mr. KUCINICH. I will do that. Because what I want to point out, thank you, Mr. Chairman, is that while the Chair certainly has the unilateral privilege to issue subpoenas, the Chair also has the privilege not to call certain witnesses. It is comforting to know that you will consider calling witnesses in the mortgage service industry, especially since it is so relevant to the matter at hand.

The Chair also, as we know, has the privilege to deny documents, the production of documents to other Members. For example, in this case, and I am not saying this happened, but my concern would be about that policy is that if there is any communication with the committee and JP Morgan Chase, that the minority may not know about it.

And I am also concerned that if, on this matter of JP Morgan Chase, servicers not appearing today, perhaps I, myself, certainly wanted to address that in my opening statement. I didn't have that privilege, nor did our ranking member. That is one of the problems in not having opening statements.

So I hope that as we continue down the road in this committee, we will understand the importance of tradition and procedure that respects the rights of all Members, because I think what it really does is it enables us to function more effectively.

Now, Mr. Massad, what is Treasury doing to retool HAMP to require improved servicer performance and do you need legislative authority to implement an effective retooling?

Mr. MASSAD. Thank you, Congressman, for the question, it is a very important question. Let me talk about some of the things we have done. We have required the servicers to, if they are evaluating someone for HAMP, they cannot foreclose on that person. And if they decide that the person isn't eligible for HAMP, they must still consider other alternatives; short sales, proprietary modifications, and so forth. And it is only after they have certified that they have done all those things that you can proceed to a foreclosure.

We have required the servicers to have a process for appealing the decision. We have also set up our own center so that people can come to us if they feel they have been wrongly denied, and we will run a calculation to give them a view on that. And we have an escalation center that deals with complaints.

Mr. KUCINICH. Well, let me ask you this. Would you agree that we will never get to the bottom of this problem or figure out how to proactively deal with the foreclosure crisis if we don't examine the actions of mortgage servicers, who alone make the decision about who may keep or must leave his or her home?

Mr. MASSAD. I would agree, Congressman, that we need to look at how this entire industry is functioning or, rather, not functioning, and I think there is a lot of work going on. And obviously through HAMP, which, as you have noted, is a voluntary program, we cannot force a chance on the entire industry. But we have learned a lot, we think, about what is——

Mr. KUCINICH. But Mr. Barofsky can examine it.

Mr. BAROFSKY. Yes, Congressman. And, by the way, we do have an ongoing audit of the mortgage servicers, and I will make sure that my staff meets with your staff to see if there are any specific concerns that we should incorporate into that reveal.

Mr. KUCINICH. I think it is also important you communicate with the Chair on that as well.

Is my time expiring or do I have 20 seconds more?

Chairman ISSA. The gentleman has 20 additional seconds.

Mr. KUCINICH. Thank you.

This is so important to my constituency because Cleveland, Ohio has been an epicenter of the subprime meltdown. People have lost everything they ever worked their lifetime for, and when you get in a situation where they depend on HAMP to try to save their homes and the mortgage servicers have a subterfuge to defeat that, it is important we call them to an accounting. Thank you.

Thank you, Mr. Chairman.

Chairman ISSA. The gentleman is most welcome.

The Chair now recognizes the gentleman from Florida, Mr. Mack.

Mr. MACK. Thank you, Mr. Chairman.

I want to thank both of the witnesses for being here today. Recognizing that we are in difficult times, let me just say I am sure it is not easy to sit there and take the questions, but there is a lot of frustration.

I wanted to start off by saying this, that my observation so far is that what we are talking about is failed government regulations and programs, and today is what we are talking about, or some people are talking about, is what other government programs can we add on top of that to try to make the failed ones work, as if, though, more government regulation, more government programs is going to be the answer.

And I have heard a couple people from Ohio talk about Ohio being the epicenter of foreclosures. I would welcome them to come down to Fort Myers, Florida, to Lehigh, to Cape Coral. And I will tell you what my constituents are telling me. They are telling me stop; we don't want more of this government kind of control. We don't want the idea that government is going to solve all of the problems, when a lot of people feel like government is part of the problem.

So if you think about what has happened, government started to push people and mortgage companies into making loans and putting people into homes that maybe weren't fiscally able to do that, either the company or the individual. Then, when we have a crisis, we then turn to more government and regulating it, and what you get is, instead of banks being able to lend, if you talk to community banks, they are afraid to lend because exactly what Mr. Massad, you have to think about what you said earlier. You said that we need to incorporate some national standards. When these lenders hear that, what they hear is more punishment. What they hear is more changes are coming; we don't know what the ground rules are; we are afraid to lend. When you bail out the big banks, it disadvantages the small banks.

So when you talk about the costs of TARP or these other bailout programs, what you are missing is the cost of potential from other sectors. So you have the big banks that you want to claim have done so well. I don't know that I see it that way, but it has been at the cost of the small banks. And now what we are seeing is lenders do not want to lend because they are afraid of statements like now we need national standards.

So, again, what I am saying is stop. What I want to hear is not what is the next regulation, what is the next program, what is the next acronym that we are going to start talking about that is a failure because government can't do it. I want to hear from both of you, if you would, very specifically, what should we repeal. What kind of repeals can we do that will help ignite borrowing and lending, that is going to help small businesses or that are going to help families who are trying to put their lives back together.

Instead of talking about what new programs we are going to pass, I would like if both of you and, Mr. Massad, I will start with you, if you could tell me what do you think we ought to repeal.

Mr. MASSAD. Thank you, Congressman. I am happy to do that. First of all, my responsibility is the TARP program. I am not a regulator, but what I would say is this. I am trying to get the government out of the business of owning stakes in private companies and telling private companies what to do.

Mr. MACK. Excuse me real quick. But when you say now we need national standards, think about what you said and think about what people back home, think about those small banks. Think about the people who are trying to make it every day. What they have just heard is the rules of the game are going to change again, and now you are saying we need national standards.

Mr. MASSAD. I was referring to national servicing standards for the servicing of mortgages, which we already have some. This business is mostly dominated by the big banks, the small banks aren't really in it; the big banks represent the vast——

Mr. MACK. Well, yes, because they can't compete because government has sided with one over the other.

Mr. MASSAD. Well, I think——

Mr. MACK. Again, if you come down to Southwest Florida, the community banks are so important to housing, but they have been pushed out because government has come in and bailed out the big banks. They can't compete.

Mr. MASSAD. Congressman, I agree small banks are very important; that is why we funded so many of them under TARP. Again, that is something we had to do. I don't think it is a good thing for the government to have to have done that, but we had to do it, and that is why we are trying to get out of it so quickly.

But in terms of your comment on failed government programs, I think all we are trying to do is say we still are in the midst of a very terrible housing crisis that is a drag on our economic recovery, and the servicers——

Mr. MACK. If I could——

Chairman ISSA. The gentleman's time has expired.

Mr. MACK. Time has expired. Mr. Chairman, if I could ask——

Chairman ISSA. I would ask unanimous consent for one additional minute. So ordered.

Mr. MACK. And I will just say this to the chairman. If you would submit to this committee for us, please, in writing, specific things that we can repeal that is going to help, instead of submitting to this committee what other regulations and programs that we ought to be performing. I would like to hear what you think we ought to repeal.

Thank you, Mr. Chairman.

Chairman ISSA. If the gentleman would yield his remaining time.

Mr. MACK. Yes.

Chairman ISSA. As long as we are asking, Mr. Massad, would you commit, before the next quarterly Special IG report comes out, either to produce a revised estimate of how many loan modifications you expect HAMP to produce, along with the source material made available to the Special IG, or, in the alternative, make available to Mr. Barofsky the source material so he can bring us an assessment?

Mr. MASSAD. Yes, sir. I would be happy to do that. We have been working on that and I think a lot of that data is out there, but we are happy to do it.

Chairman ISSA. We sure appreciate it. I know the committee would appreciate that.

The Chair now recognizes the gentleman from Massachusetts, Mr. Lynch, for 5 minutes.

Mr. LYNCH. Thank you, Mr. Chairman.

Mr. Barofsky, Mr. Massad, thank you both for your great work and thank you for your service to our country. Mr. Barofsky, I am more familiar with your work, especially so, sir, the work that you have been doing. I do want to take just maybe half a minute to really correct some of the revisionist history here on TARP.

I voted against TARP. And when it came before the Financial Services Committee and before this Congress, the stated legislative goal of TARP was to help Main Street, to help Main Street, the Troubled Asset Relief Program. And when we asked Secretary Paulson at the time, just before the vote, actually, I think it was the ranking member on Financial Services said why don't you just take money and stuff it into the banks, the $700 billion that you wanted.

And Mr. Paulson said, no, we are not going to do that. We are not going to do that. We looked at that and that won't work. Then 10 days after this bill passed, TARP passed, they did exactly that, they injected all that money into the banks. This was the bank shareholder relief program.

And for people now to say, yes, this is exactly what we voted for, this is not what we voted for. We voted to increase lending. That was the goal of the Congress when TARP was put on the floor. And many of us saw the failings of that. And to now say, oh, yes, we supported TARP for all the right reasons, I think you have to accept the fact that TARP stuffed basically $700 billion worth of taxpayer money into big banks, helping out these shareholders. We paid 100 cents on a dollar to Goldman Sachs because we pumped $14 billion into AIG. It was a pass-through, it went right to Goldman Sachs. A hundred cents on a dollar on credit default swaps that shouldn't have been worth half that.

We also passed through hundreds of millions of dollars to AIG FP employees who mispriced this risk as part of TARP. They got paid off. They got bonuses from taxpayer money. How you can take credit for that and say that was a good thing. And it was never a question of—I know people said, well, if we did nothing. Well, we wouldn't have done nothing; we would have done something different. And I just think there are a lot of weaknesses in this TARP program. I think, Mr. Barofsky, you have drilled down and got to many of them.

But I want to take my last couple minutes to talk about the servicing industry, because so much of the servicing industry is mentioned in this report and I think it is spot on. I want to just talk about—I will just list all the investigations that are going on right now with the services. And we are not going after them in a meaningful way; I don't think Treasury is.

On October 13, 2010, the Attorney General of all 50 States announced a joint investigation into whether some of the Nation's largest financial institutions are using flawed and forged documents to execute wrongful foreclosures. The Federal Reserve and the FDIC and the Office of the Comptroller of the Currency are now investigating whether systemic weaknesses in the industry are leading to improper foreclosures.

On January 7, 2011, the Supreme Judicial Court in my own home State of Massachusetts voided home seizures because the folks who were foreclosing couldn't actually prove they owned the mortgages. The U.S. Trustees Program has a similar program. The attorneys general of Arizona and Nevada are doing the same thing. The Justice Department.

What are we doing about the services? How are we going to clean up this industry and correct these problems if we are not going right after the services? That seems to be where the problem lies.

Mr. MASSAD. I am happy to respond to that, Congressman.

Mr. LYNCH. Please.

Mr. MASSAD. Thank you for the question. You have referred to the activity that is going on by a variety of Federal agencies, and it is under the auspices of an interagency task force that Treasury co-chairs. So that is very important work and I think we will see some results of those investigations, and I think it will help us figure out what types of reforms are needed, and potentially some of those things will be coming before the Congress.

Let me just also, though, respond. I appreciate the fact that because this program was first announced as a means to purchase troubled assets, and then it became a program where, at least initially, what Secretary Paulson did under the Bush administration was to invest money in banks, people were critical of that. All I would say to that is a couple things. One, I think, under the circumstances, we had to make that change; there wasn't time to do the troubled asset purchase as it was originally contemplated. No. 2, we didn't do $700 billion, we actually spent far less than that.

Mr. LYNCH. Five hundred thirty-four billion, if you want an exact number, that went directly to the banks. Still a lot of money.

Mr. MASSAD. Congressman, if I may——

Chairman ISSA. If you would summarize your answer, please.

Mr. MASSAD. Sure. About $250 billion went to banks, and most of that has been recovered and we will make a profit on those investments.

Chairman ISSA. Thank you, gentlemen.

The Chair now recognizes the gentleman from Pennsylvania, Mr. Kelly, for 5 minutes.

Mr. KELLY. Thank you, Mr. Chairman.

Mr. Barofsky and Mr. Massad, thank you for being here today. Mr. Massad, in your opening comments you made reference to the automobile industry, of which I am a part of. I am a car dealer and a small business person. So while people talk about small business and their view of it from 40,000 feet, I am actually on the ground. I can tell you this: the Small Business Loan Fund is not working. And most banks cannot operate out of fear. The regulations that have been imposed on these people makes it impossible to get access to these funds.

Now, why do I say that? Because I go through it every day. Not only myself, but the people that I am in business with. And while I am an elected official today, in my real life I am a small business owner. I can tell you, with somebody that has all the skin in the game every day, I would suggest to you that while we go on with these programs and we live in this wonderful world of acronyms that really make sense inside this Beltway, in real America it makes absolutely no sense to anybody, and these loans simply are not available. So while we talk about this money that is available to help us survive, the reality of it is that it is not available to us.

Now, what has changed? It is the rules. To me, too big to fail means that I am too small to survive. Most of the banks that I do business with are small banks. They are absolutely frozen with fear. The regulations and the rules have put them in a situation that they cannot operate with us on a day-to-day basis. Quarterly the covenants change for me.

And as we talk about small business leading the way out of this economic mess we are in, I will tell you it is the uncertainty that all of us face. And I am not talking about big corporations; I am talking about Main Street America. I am talking about the average person, the guy that gets up every day and worries about it not just during business hours, but 7 days a week, 24 hours a day.

My only question to you, sir, and I don't know what you can do about it, but there has to be some way that we can free up these funds to make it possible for these people to survive. The people have lost faith in this system.

Mr. MASSAD. Congressman, that is a very good question and you raise a lot of important points. Let me say a couple of things. One is that what we tried to do under TARP was, in part, restart the credit markets that help small business, the securitization markets on which a lot of them actually depend for loans; and I think we have succeeded there. There is still a lot of work to do to help small business.

I agree with you 100 percent; small business has been hurt in this crisis, small banks have been hurt in this crisis, and they haven't fully recovered. The small business legislation that was passed last year, which set up not only the Small Business Lending Fund, but also another program where the States are trying to help small businesses directly, I think provides some help. It may not be enough.

So I am happy to explore with you further things that should be done in that regard, because I agree it is a problem that needs attention, and I think the Treasury and the Obama administration have tried to pay attention to that.

Mr. KELLY. And I appreciate your comments, but I would tell you this: time is of the essence and we really do not have—we are that close to the ground right now; there is not a lot of free fall left. So I appreciate you so much for being out there.

And I yield back my time, Mr. Chairman.

Chairman ISSA. And the Chair appreciates that.

The Chair now recognizes the gentlelady from Washington, DC, Ms. Norton, for 5 minutes.

Ms. NORTON. Thank you, Mr. Chairman. As a predicate to my question, I want to note an article from the Abilene Reporter News describing what appears to be the Republican approach to the meltdown of homes, and I ask unanimous consent that this be placed into the record.

Chairman ISSA. Without objection.

[The information referred to follows:]

Norton, LC

TX -- Rep. Neugebauer: Let foreclosures occur

The Abilene (TX) Reporter News
By Trish Choate

Monday, January 24, 2011

WASHINGTON — Abilene Rep. Randy Neugebauer said that letting the housing market bottom out and then start coming back will help remedy the budget woes of state and local governments.

But the markets won't come back as long as there's a huge inventory of housing that no one knows what to do with, Neugebauer said Monday in Washington at a conference on housing finance reform.

"A lot of these people — if they're not making their mortgage payment, they're probably not paying their taxes, either," said the Lubbock Republican, a former banker. "So it's a compounding impact."

Texas is facing an estimated budget shortfall of $25 billion for 2012 and 2013.

Speaking in a new leadership role in financial oversight, Neugebauer focused on dialing down the role of Fannie Mae, Freddie Mac and the Federal Housing Administration while allowing market forces to work in the housing and mortgage industries to heal the economy from the subprime mortgage crisis.

All of the government's initiatives to keep mortgages out of foreclosure need to stop, he told those attending the conference at the University of Maryland's Smith School of Business.

"One of the things I learned very quickly is that markets aren't kind, but they're very efficient," Neugebauer said.

The government has tried to "sedate" the housing market for months, thinking the pain will vanish, he said.

"All you do when you give somebody a painkiller is you're numbing the pain, but the pain is there," Neugebauer said. "There is pain to be had out in this marketplace."

Money is sitting on the sidelines ready to start buying up the oversupply of housing, he said.

"Now the prices will be lower," he said. "But from a homeowner's perspective ... the sooner we can get that inventory into the economy, the sooner I believe long term that housing prices begin to stabilize in this country."

Neugebauer acknowledged his stance is not popular.

"They say, 'Well, Randy, you're being insensitive. What about all of those people that are going to lose their homes?'" Neugebauer said.

But he knows that some people became homeowners who probably never should have, he said.

The time is now to start dialing down the role of government-sponsored entities Freddie Mac, Fannie Mae and the Federal Housing Administration because they're already backing most mortgage loans, and they become more dug-in each day that goes by, he said.

Lawmakers shouldn't wait until the economic recovery begins, when changing the rules will create more uncertainty, Neugebauer said.

The new chairman of the oversight and investigations subcommittee of the House Financial Services Committee, Neugebauer is a key figure in the debate about what to do with Fannie Mae and Freddie Mac.

One of the latest twists in the saga of the government's takeover of the agencies is that taxpayers have been footing a bill of more than $160 million to defend the two government-sponsored entities and their top-ranking executives in lawsuits.

"The fact that we're still paying those legal fees is of great concern to me and should be of concern to the American taxpayers," Neugebauer said. "It brings the question what other things are going on over there."

Neugebauer called for more investigation.

Ms. NORTON. Mr. Neugebauer is the chairman of the Financial Services Committee. He is a former banker himself, and he is pretty frank. He essentially says that the initiatives aimed at cushioning the blow have all failed, and so he says let the market takeover, "Markets aren't kind, but they're very efficient." Should we go cold turkey and leave millions of homeowners out there to suffer the consequences? And I would like a short answer because I have further questions. Mr. Massad and Mr. Barofsky, who seems to just throw up his hands often. Yes, Mr. Massad.

Mr. MASSAD. Thank you, Congresswoman. No, I don't think we should just go cold turkey. That is why I would disagree with some of the comments that have been made that because HAMP has not achieved three to four million modifications, that, therefore, we should end it. I don't think that makes sense. I think this program can still help a lot of people. I think it is constructed so that we only use taxpayer funds prudently and wisely. To the extent that we do help people, I think it is helping the right people, people who need——

Ms. NORTON. Let me go to Mr. Barofsky, then.

Mr. BAROFSKY. I think it is incredibly important. TARP was designed in part just as much to help the Wall Street banks as to help struggling homeowners. That was part of the intent of the legislation. And I think Treasury bears an important responsibility to fulfill that goal that Congress set forth of——

Ms. NORTON. So you don't think we should go cold turkey and just leave millions of borrowers out there——

Mr. BAROFSKY. I would like to see the program——

Ms. NORTON [continuing]. To let the market do what the market always does. It does resolve all such crises one way or the other.

Mr. BAROFSKY. I would like to see a credible revamp of HAMP so that it can achieve the goals that were originally set for it.

Ms. NORTON. OK, let's talk about that, because I am essentially remedy-oriented and, as I have seen in my own district how HAMP has failed so many homeowners, people who work hard for their homes, got caught up in a crisis not of their making, it does seem that the only way out of this is to take measures that protect both homeowners and investors.

A recent Washington Post article, January 18th, as a matter of fact, suggested that the incentive structure for services is greatly misaligned, "Studies have shown that foreclosure is often more profitable for a company, known as a mortgage servicer, that collects the monthly payments on mortgages and passes them on to investors who own the mortgages. However, it is often not the best path for borrowers who lose their home or investors who lose money."

Mr. Massad, is it true that mortgage servicers often have a financial incentive to foreclose on distressed borrowers and at times the program, your program, actually gives them a financial disincentive to work with borrowers? And what are you doing about it?

Mr. MASSAD. Well, what we are trying to do is give them an incentive to keep people in their homes, and I thin the structure of the program has worked in that regard; and that is why, also, it has been emulated by the industry. You know, before this program was started, we had 2 years of this crisis and nothing was done.

Ms. NORTON. Why is FHFA considering an entirely new compensation structure if this one is so fine and dandy?

Mr. MASSAD. No, no, let me make sure I am clear. I agree with what the FHFA is doing, and Treasury has supported that. They are looking at the basic business model of the servicers, because it doesn't work; it is broken. It doesn't create right incentives. HAMP was also trying to change those incentives with respect to the loans we could affect, and that is, as I have said, a limited pool, it is not the entire industry. But one thing that has——

Ms. NORTON. Do you think the FHFA measures will have a meaningful impact?

Mr. MASSAD. Well, I certainly hope so, Congresswoman. What they are doing is saying, look, we need to re-examine how servicers are compensated, because what has happened is they are overcompensated for loans that are performing, but when it comes to the underperforming loans they are not set up to deal with people, to resolve these issues.

Ms. NORTON. Mr. Massad, if this is not a win-win, it is not going to work. If it is a win-lose—and it appears often to be just that—then we are going to be stuck, and that is where the borrowers and the homeowners are stuck now.

Mr. MASSAD. Well, that is right, Congresswoman, and that is why I have said I think there needs to be a lot of attention paid to how this industry has failed us in a lot of ways. We have seen a lot of problems coming out of this crisis and——

Ms. NORTON. And how your incentive structure has failed us.

Mr. MASSAD. Right.

Chairman ISSA. The gentlelady's time has expired.

The Chair now recognizes the gentleman from Michigan, Mr. Walberg, for 5 minutes.

Mr. WALBERG. Thank you, Mr. Chairman.

Chairman ISSA. Would the gentleman suspend?

The Chair would note that we are expecting two votes at approximately 11:10. We will work for about one more question after the vote is called. We will leave. We will return, and as soon as there are two people on the dais we will begin questioning again so as to be respectful of your time.

The gentleman may continue.

Mr. WALBERG. Thank you, Mr. Chairman.

And thank you, Mr. Barofsky and Mr. Massad, for being here to appear in front of us. I had the dubious distinction to vote on TARP, to vote against it, I think for all the right reasons; I had the dubious distinction to be foreclosed upon by my electorate in the next election; and then for the last 2 years to hear the response of people who finally awakened to the fact that, yes, there was a problem, yes, there was a significant concern, yes, there was a meltdown that was taking place. But, frankly, their opinion was that it was the wrong approach to take, and it seems to have borne out.

Mr. Massad, I would ask you, and I hope this hasn't been asked while I was away at another committee meeting, but what are the plans for the obligated TARP funds which have not yet been spent?

Mr. MASSAD. The only funds that have not yet been spent are those for the housing programs. And let me just note it is not $70 billion for HAMP. Our portion of HAMP—there is a GSE portion—our portion of HAMP is 29. We have done a number of other housing programs. So there is $45 billion allocated for a variety of housing programs. There is still a very small amount that is committed for the public-private investment partnership.

Basically, we are no longer making new commitments. We are no longer doing new programs. Our focus now is getting the money back. And we have gotten, as I say, a lot of it back, and I expect we will get a lot more of it back. And essentially all the programs, leaving aside the housing programs, all the programs considered as a whole will result in very little cost or potential even of profit, because we will get all the funds back.

Mr. WALBERG. Can you make a blanket commitment here today that those unobligated funds will not be spent?

Mr. MASSAD. Congressman, I can make a blanket commitment to you that we will make no further commitment of funds. We do not have that authority. But let me make clear there are funds that are obligated that may be spent. There are no funds that are unobligated. We will not make any further obligations of funds.

Mr. WALBERG. But you will not spend them, unobligated funds?

Mr. MASSAD. Unobligated funds we will not spend. I just want to make sure we are communicating. We no longer have authority to make obligations. I can't make new commitments of funds. I will not, therefore, make new commitments of funds. I do have, we do have some funds that have been committed but not spent, and those we expect at least some of those will be spent, not necessarily all of them.

Mr. WALBERG. Thank you.

Mr. Barofsky, on page 6 of SIGTARP's report, in referencing in comparing recipients of the Federal assistance to Fannie and Freddie, you make this statement: "In many ways, TARP has helped to mix the same toxic cocktail of implicit guaranties and distorted incentives that led to disastrous consequences for the Government."

Mr. BAROFSKY. Well, two of the big characteristics of what happened with the lead up to the conservatorship of Fannie and Freddie was, one, the implicit guaranty they received that they had a government backstop, and one of the legacy results of TARP is that the market still believes that the U.S. Government is backstopping the largest too big to fail institutions; and that causes a whole range of problems. It hurts market discipline. Counterparties, creditors, investors, they don't do the due diligence that is necessary when evaluating whether to do business with one of these banks or investing one of these banks because they believe that any type of risk they take will be backstopped by Uncle Sam and the taxpayer. That gives them an advantage; it gives them the opportunity to borrow money more cheaply.

S&P recently announced that their intent to change the rating system to make it a permanent aspect that the big too big to fail banks will have higher ratings based on implicit government guaranty, and they say this notwithstanding Dodd-Frank and other countries' response to the financial crisis.

This is a market distortion and, as a result, the executives of those banks get back into the position where it is heads, I win; tails, the taxpayer bails me out.

Mr. WALBERG. What recommendations might you suggest to go away from that moral hazard?

Mr. BAROFSKY. I think that we are where we are, and what we have is Dodd-Frank, and the FSOC, and the committee that is providing oversight, and it does have a lot of tools. They need to have both the regulatory will and the political will to rein in the size of these banks. They have to do two things which are going to be remarkably difficult, and Secretary Geithner, to his credit, was remarkably candid with us about the limitations of what they are going to be able to do.

But, first of all, they have to have a system where they can credibly resolve large financial institutions without bailing out the shareholders, the creditors, the executives. Second, which is probably just as important, they have to convince the markets that is actually going to happen. Because if they don't convince the markets, if they don't have the credibility that they will not be bailing out institutions going into the future, it almost won't matter otherwise because, again, those incentives will still be warped; that discipline will still be gone; and those risks, with the idea that the taxpayer will bail out the executives, the shareholders, the counterparties will continue a perversion of the system.

Mr. WALBERG. Thank you. In the parent world we call that tough love. Thank you.

Chairman ISSA. I thank the gentleman.

The Chair asks unanimous consent that a statement for the record submitted by the American Bankers Association be inserted at this time. Without objection.

[The information referred to follows:]

Statement for the Record

By the

AMERICAN BANKERS ASSOCIATION

For the Hearing Before the

Committee on Oversight and Government Reform

United States House of Representatives

American Bankers Association

Statement for the Record
by the
American Bankers Association
for the hearing before the
Committee on Oversight and Government Reform
of the
United States House of Representatives
January 26, 2011

Chairman Issa, Ranking Member Cummings, and members of the Committee, the American Bankers Association appreciates the opportunity to submit this statement for the record for the January 26, 2011 House Oversight and Government Reform hearing entitled, "Bailouts and the Foreclosure Crisis: Report of the Special Inspector General for the Troubled Asset Relief Program." The American Bankers Association (ABA) represents banks of all sizes and charters and is the voice of the nation's $13 trillion banking industry and its two million employees.

There is no question that the banking industry – indeed, the entire country – benefited from the extraordinary actions taken by policy makers in the fall of 2008. It was a time of considerable stress and required decisive action to stop the growing anxiety and uncertainties in markets worldwide. Unfortunately, the purpose of the programs implemented to deal with the crisis were not well articulated, and broadly mischaracterized. This was particularly true for the Troubled Asset Relief Program (TARP).

Originally, TARP, as the name implies, was created for the purchase of troubled assets. Then in a matter of days after enactment, policy makers instead opted to purchase capital in healthy, viable banks through the Capital Purchase Program. The fact that this was a program for generally healthy banks – and one that ***promised a significant return to the government*** – was lost on the public, and worse, often mischaracterized as a bailout.

More than two years ago, when the Capital Purchase Program (CPP) for banks had just begun, ABA stated in a hearing just like this that the program would return between $40 and $45 billion to taxpayers.[1] Following the start of the program, numerous restrictions and disincentives were created for participants, causing many banks to leave the program prematurely and causing many others to lose interest in participating altogether. Despite this, the return from the banking portion remained strong with the Treasury now reporting a ***profit of over $28 billion from the***

[1] Statement of Edward L. Yingling on Behalf of the American Bankers Association before the United States House of Representatives, November 18, 2008.

bank programs. The bank investments have been so successful that they ***yielded 5.5 percent <u>more</u> than the S&P 500*** returned over the same period.[2]

We were confident that this program would be successful and stressed at every opportunity the need for Treasury to more fully and completely articulate the goals of the program. Unfortunately, the TARP/CPP program was mischaracterized and used to justify the Dodd-Frank Act. The entire act will certainly impose greater costs on all banks – the vast majority of which never had anything to do with the "troubled assets" – and the communities they serve.

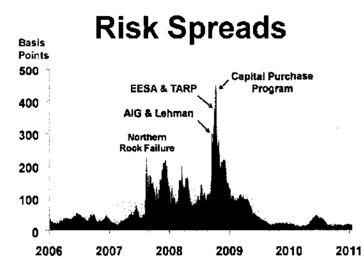
Hearings like this are helpful in providing clarity about the purpose and realities of these programs.

There several key points we would like to make in this statement:

- TARP was successful in stabilizing the financial system and economy;
- The bank programs under TARP are returning large profits to the taxpayers, as ABA predicted; and
- Losses from non-bank programs and TARP's overall cost continue to decline.

TARP Was Successful in Stabilizing the Financial System and Economy

TARP was an effective response to quell fears in the financial markets and prevent a more severe recession. Widespread uncertainty and fear drove inter-bank borrowing rates up over 350 percent in late 2008, freezing global financial markets that banks and businesses rely on to fund daily operations, payrolls, and expansion plans (see chart). The investment under TARP's Capital Purchase Program helped reaffirm the stability of our financial system and, in the following months, drove



Source. Federal Reserve and British Bankers' Association. 3-Month USD Libor to the 3-Month Treasury Bill.

[2] "TARP Tracker. 66th Ed.," Keefe, Bruyette & Woods Inc., July 6, 2010.

rate spreads back to near normal levels, allowing banks and businesses to access funding markets and continue operating.

The broad success of TARP in thawing funding markets and creating stability in the financial system saved the economy from a significantly more painful recession. Without TARP and other government actions, the economy would likely still be in a severe recession. According to one study, without these programs, GDP would still be contracting at a rate of 3.7 percent and unemployment would have reached 16.5 percent.[3] TARP was an essential and successful response to what could have amounted to a more brutal recession.

The Bank Programs Are Returning Large Profits to the Taxpayer

Through TARP's bank programs[4], the Treasury made equity investments of over $200 billion in viable banks to restore stability in the financial markets. These investments in banks are returning large profits to the taxpayer. The Treasury stated "every one of its programs aimed at stabilizing the banking system…will earn a profit thanks to dividends, interest, early repayments, and the sale of warrants."[5]

According to the Congressional Oversight Panel, through November 30, 2010, Treasury recorded **a net income of $30.3 billion**, after deducting losses. The bank programs have generated over 93 percent of this income.[6] The continued recession in many parts of the country has created some losses to the bank programs; however, the profits earned from other bank-TARP participants far outweigh these losses.[7]

The Congressional Oversight Panel reported that the average internal rate of return for banks fully repaying their Capital Purchase Program investments was **8.4 percent,** as of January 3,

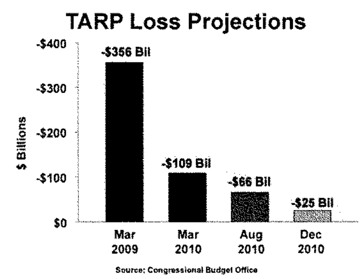
[3] Blinder, Alan and Mark Zandi, "How the Great Recession was Brought to an End," July 27, 2010. http://www.economy.com/mark-zandi/documents/End-of-Great-Recession.pdf
[4] TARP's bank programs include the Capital Purchase Program, the Targeted Investment Program, and the Asset Guarantee Program.
[5] U.S. Treasury press release TG-436, December 9, 2009. http://www.treasury.gov/press-center/press-releases/Pages/tg436.aspx
[6] Congressional Oversight Panel January 2011 Oversight Report. http://cop.senate.gov/documents/cop-011311-report.pdf
[7] TARP has recorded $248 million in losses from banks. The failure of CIT, a large non-bank financial firm, generated a loss of $2.3 billion.

2011.[8] The bank investments have broadly been completely mischaracterized as "bailouts"; in reality, the Treasury is realizing a significant profit.

Losses from Non-Bank Programs and TARP's Overall Cost Continue to Decline

While the bank programs have generated large returns, the risk of loss is centered on the non-bank programs. Even with the non-bank programs, the improvement in the economy is increasingly suggesting that those investments will return better results than initially expected. Improvements in the performance of non-bank programs, paired with the profit generated from the bank programs, have continually driven down the expected cost of TARP.

The Congressional Budget Office has steadily reduced its estimate for the cost of TARP, from $356 billion in March of 2009 to $25 billion in late 2010, a 93 percent decline in less than two years.



The Treasury expects the cost of TARP to be no greater than the amount spent on the Administration's mortgage modification programs, initiatives that have no means of generating revenue or return.

Conclusion

The banking industry appreciates the extraordinary actions taken by the government to address the financial crisis. These actions were successful in stabilizing the economy, thawing financial markets, and prohibiting a deeper recession. Unfortunately, poor communication and broad mischaracterizations have caused these programs to be considered "bailouts" when in reality, the investments in banks are returning significant profits to the taxpayer.

[8] Congressional Oversight Panel January 2011 Oversight Report. http://cop.senate.gov/documents/cop-011311-report.pdf. The internal rate of return is the annualized effective compounded return rate that can be earned on invested capital.

Chairman ISSA. The Chair now recognizes the gentleman from Missouri, Mr .Clay, for 5 minutes.

Mr. CLAY. Thank you, Mr. Chairman, and thank you for holding this meeting.

Mr. Barofsky, I understand that you have the oversight authority to investigate mortgage service providers. I wanted to discuss one specific example of a horrendous abuse against our active duty service members. According to an NBC News report of January 17th, JP Morgan Chase & Co. admitted that they overcharged thousands of active duty military families millions of dollars on their mortgages.

They also improperly foreclosed on some of these families. They weren't supposed to do that because we passed a Servicemembers Civil Relief Act specifically to protect military families from high interest rates and foreclosure actions. We recognize the importance of those families' service to our country.

Mr. Massad, have you seen this report?

Mr. MASSAD. I have, sir.

Mr. CLAY. What can these families do other than seek redress from the company?

Mr. MASSAD. Congressman, I will be happy to look into that; that is really outside of my jurisdiction. But it was a very troubling report, I agree, and I would be happy to get back to you or get the appropriate officials to get back to you.

Mr. CLAY. Well, and I am glad to learn that JP Morgan has acknowledged its errors and is working with the families to try and make things right, starting by paying them back $2 million in overcharge interest. But this story makes me worry for a different reason. The victims in this case complain that the industry servicers in this case harassed them endlessly, refused to acknowledge legitimate documentation when they presented, and essentially made their lives miserable, all without any basis to do so.

Now, I assume banks don't have one collection agency just for military servicemembers and another one for everyone else. Mr. Barofsky, have you seen similar abuses of this kind, where the banks and their collection agencies harass people without any justification?

Mr. BAROFSKY. We have. You know, we operate the SIGTARP hotline, where we have collected more than 24,000 contacts since our inception, and a lot of them are complaints from homeowners dealing with mortgage servicers, absolutely. And when we see those, we try to direct them to the right place. If there is an allegation of criminal activity and it relates to the HAMP program, we will take it; if it is criminal activity that is outside of our law enforcement jurisdiction, we will refer it out; we will refer it to Treasury if it is appropriate, if there is something that they can do; and we also collect them for our review and our audit function.

Mr. CLAY. How about the real abusive servicers, can they be removed from the program?

Mr. MASSAD. I'm sorry, can they be removed from——

Mr. CLAY. Yes, can they be removed——

Mr. MASSAD. From our program, from the HAMP program?

Mr. CLAY. Yes.

Mr. MASSAD. They could be. Again, there are some servicers that cover a lot of the market, and if we were simply to kick them out of the program, then we wouldn't be able to reach the people we would like to reach. So that is why our focus has been to try to improve the practices as much as we can.

Let me just say we will continue to be aggressive in this. We are in the large servicer shops all the time and we will continue to work with SIGTARP on practical suggestions as to how to get the servicers to do a better job, because we agree that they need to do a better job.

Mr. CLAY. Well, but if they are totally ignoring the homeowner and ignoring the documentation, then——

Mr. MASSAD. Sure. If I may, Congressman, I wouldn't say they are totally ignoring the homeowner, at least with respect to our program. I think with respect to our program we have gotten them to pay attention. We have come a long way. When we started this, they said we can't do this, we are not ready; and we said you have to get ready.

And while we haven't achieved as many modifications as we would like, I will admit that, I have always admitted that, but, nevertheless, we are making some progress. We are still getting about 30,000 new families helped a month. That is important. It is not enough, but it is important.

Mr. CLAY. Could either one of the witnesses supply us with the breakdown of State by State of modifications? Would that be possible?

Mr. MASSAD. Yes. We can certainly do that. We can do that for our program, Congressman. We do produce a lot of statistics and metrics on our program, but that only covers our program. There, frankly, aren't a lot of statistics on the rest of the industry in that regard.

Mr. CLAY. OK. And of special interest to me, of course, would be on Missouri.

Mr. MASSAD. Certainly.

Mr. CLAY. OK. I thank the witnesses and I yield back, Mr. Chairman.

Chairman ISSA. I thank the gentleman.

Our last, for this round, before we go to votes, will be the gentleman from Arizona, Mr. Gosar.

Mr. GOSAR. Thank you.

Being from Arizona and hearing the discussion in regards to Florida and Ohio, I have to say that Arizona, which we thought was a leveling of our problems with housing, is now all of a sudden showing some signs of double-dipping, so this is very troubling. And being from a very poor community from the district, we see homeowners on the very brink of catastrophe.

My question to you first, Mr. Massad, is doesn't the lower cost of borrowing that results from the implicit government guaranty partially explain the banks' abilities to pay back TARP?

Mr. MASSAD. Yes, it is probably a factor. But I think a more important factor was the process that we implemented of the stress tests, because what we did was we put the largest banks through a very intensive stress test, because the market didn't have confidence as to which institutions might fail and how much capital they needed. So in the spring of 2009 we implemented the stress test process, and we made the results and the whole process very transparent, and as a result of that, they were able to raise private capital and we were able to get the government out.

Mr. GOSAR. So a followup question, so the success depends upon that implicit guaranty.

Mr. MASSAD. No, I don't think I said that. What I am saying is that we got out of the banks' investments, we got the money back through this stress test and recapitalization process. If I may, I think the thrust of your question really relates to some of the concerns Mr. Barofsky has raised on too big to fail and moral hazard, and those are very legitimate concerns, and this Congress obviously debated them at length when it passed the Dodd-Frank legislation.

We are still implementing that. I think Mr. Barofsky is raising his views on that, in effect, it sounds like what he is saying is Dodd-Frank may not have been strong enough or may not be strong enough; maybe we should break up some of these banks, maybe we should take more aggressive action. That is certainly an opinion and others have voiced that opinion.

My own view is let's give Dodd-Frank some time to work, because now we do have a lot of tools that we didn't have. So I think it is premature to pass judgment on Dodd-Frank. It was really the first overhaul of our financial system in many years and it was necessary or, rather, TARP was necessary because we didn't have the tools that Dodd-Frank provided.

Mr. GOSAR. Mr. Barofsky, how would you feel or would you differ in that opinion?

Mr. BAROFSKY. I don't think that Mr. Massad has correctly characterized my position, to put it mildly. The answer to your question, though, is yes, the implicit guaranty absolutely enabled those banks to get out of TARP on the terms that they did. Because those banks enjoy enhanced credit ratings from the credit rating agencies, one of the conditions that the Federal Reserve and Treasury put for those banks to get out of TARP was to go out on the markets and raise capital, and the larger banks can raise capital more efficiently and cheaply because of this implicit guaranty, because of the benefits they have. So, in short, the answer to your question is yes.

Mr. GOSAR. Thank you.

I yield back the balance of my time.

Mr. DESJARLAIS [presiding]. Thank you, Mr. Gosar.

And I am instructed that we are about to be called to some votes, so I am very, very grateful, both Mr. Massad and Mr. Barofsky, for your attendance to this point. I know if you can give us the indulgence as soon as we conclude the votes, I know there are some Members who would like to continue with some questioning. So the committee stands in recess.

[Recess.]

Chairman ISSA [presiding]. The committee will come to order. The Chair now recognizes the gentleman frm Pennsylvania, Mr. Meehan, for 5 minutes.

Mr. MEEHAN. Thank you, Mr. Chairman, and thank you to the witnesses for continuing to be with us here today.

Mr. Massad, I looked at something which is a little bit different than what has been talked about so far today, but I noticed in my review of the most recent report the issue of the extent where recapitalization isn't just for the big banks, but a lot of times you are looking at groups of other banks and communities all across the country of various size, and some of them are looking at difficult issues as well and coming to you for recapitalization. So they are making application to you for recapitalization. What is your policy with respect to when you get that notification, sharing it with others?

Mr. MASSAD. Congressman, thank you for the question; you raise an important issue. First of all, we don't ever provide additional funds. I want to make that very clear. Second, our job now with respect to those bank investments is to get as much of the money back as we can. We still have investments in about 560 banks, and there are a few of those situations where banks have had trouble and have come to us because they are trying to attract private capital, and they ask us to modify our investment; and we have agreed in a small handful of situations.

The biggest is obviously Citigroup, where we agreed to convert from preferred stock to common stock. That one obviously turned out very well since we will realize a $12 billion profit on our overall investment. Most of the others have been very, very small. But we do try to work with the banks. We have a whole process of monitoring our investments and monitoring these banks, and occasionally, because the bank is troubled, the choice for us is, if we don't do anything, we might lose our entire investment because the bank might be seized. So the question is always can we agree to some terms that help them attract new capital and, therefore, realize as much as we can.

Mr. MEEHAN. And there is one of the issues, though, that struck my interest, because part of your participation with them is creating an awareness on others, in many ways, to some extent, maybe a sign of good approval that is enticing other private investors to make capital investments to help with that bank.

Now, one of the things that concerned me in the report was the suggestion that simultaneously some of these banks may be having trouble for a variety of reasons, including the potential that they may be being looked at for fraudulent activities. So to what extent and what timing has been your policy to report that to the IG who may, as you saw, 24,000 reports from people—as a prosecutor, I used to see the whistleblowers being some of the key things to us. They have information. What are you doing to ensure that there are not activities in which you are enticing people to invest but simultaneously they are under investigation for potential fraudulent activity?

Mr. MASSAD. It is a very good question. We, first of all, cooperate fully with SIGTARP in terms of when they tell us they are investigating someone and they want information, we give them all that information that they want. I know that in the SIGTARP's quarterly report Mr. Barofsky has raised the question of whether Treasury should notify SIGTARP at some point in that process, and that is a recommendation that we are looking at. We have, from time to time, done that and that is a recommendation that we are looking at——

Mr. MEEHAN. Are you asking that SIGTARP say to you when they begin to have somebody under investigation?

Mr. MASSAD. No, I am not asking that.

Mr. MEEHAN. That is what I am trying to understand. And I am not being hostile on this, I am just trying to understand the timing here, because the concern I have is that they may be sitting on information, investigative information, and simply the fact that would be leaked would be contrary to your interests.

Mr. MASSAD. Absolutely. There——

Mr. MEEHAN. I know my time is going to run out, so I am going to ask you this, and, Mr. Barofsky, if you could jump in at the conclusion of this, after Mr. Massad, and tell me what do you need, what is your policy with respect to the ability to have timely notification that you may have a matter under investigation while simultaneously Treasury is encouraging people to invest in that bank.

Mr. MASSAD. Congressman, if I may, it is a very sensitive question, a lot of complexities to it, actually, and you have touched on many of them, and we have thought about this in connection with, well, what if the SEC is investigating a bank, what is the Justice Department is investigating a bank; should that knowledge be knowledge that we have? If we have that knowledge, then what do we do? So there are some complexities to this that we are looking at. We are talking with Mr. Barofsky's staff, as well as the DOJ, about this, and I will be happy to get back to you further on it.

Mr. MEEHAN. Thank you.

Mr. BAROFSKY. I don't think there is a great deal of complexity with this issue with respect to SIGTARP. We are a Treasury entity within the Treasury Department. They used to give us a head's up before they would do one of these recapitalizations, before they would be publicly announced, which would give us an opportunity to review our caseload and communicate whether there is an issue, and we have now made a formal recommendation that process be implemented and also that with respect to giving money in the SBLF program, when TARP banks have an opportunity to recapitalize into the Small Business Lending Program, that Treasury check with us. The last thing they want to do is pour more money into an ongoing fraud.

One of our biggest successes was with Colonial Bank, which had received conditional approval to receive $550 million in TARP money, and Treasury and Mr. Massad and OFS did a remarkably great job working with us to make sure that money didn't go out the door, and we want to have the opportunity to repeat that success.

Mr. MEEHAN. Mr. Chairman, one final——

Chairman ISSA. Ask unanimous consent for one more question.

Mr. MEEHAN. If there was a policy wherein, in the past, they were and they are not now, what is different; why has that changed midstream?

Mr. MASSAD. Congressman, there wasn't a formal policy; we had very few of these before, we did notify SIGTARP, and we are looking at what should the formal policy be, because we also have to be sensitive to the fact that if a law enforcement official shares information with us, we have to protect the confidentiality of that information; what position does that put us in. So, as I say, I think there are some complexities to this. I would be happy to meet with you and your staff to discuss it further. We are giving it very serious attention.

Mr. MEEHAN. Thank you, Mr. Massad.

Chairman ISSA. I thank the gentleman.

We now recognize the gentleman from Virginia, Mr. Connolly, for 5 minutes.

Mr. CONNOLLY. Thank you, Mr. Chairman. Talk about good timing.

Chairman ISSA. The best.

Mr. CONNOLLY. Thank you, gentlemen, for appearing before the committee today. Mr. Massad, did the Bush administration make a mistake in creating the TARP program?

Mr. MASSAD. No, I don't think so, Congressman. Again, I think it was unfortunate that we had to create TARP. It was unfortunate that we didn't have the tools to otherwise deal with this crisis. But I think they were right to take the actions that they took. I am proud of those Members of Congress from both sides of the aisle who stood up and supported it; I think we needed this. And, again, it is unfortunate that we had to do it, but I don't think we had much choice.

Mr. CONNOLLY. At the time, Mr. Massad, that TARP was created by the Bush Secretary of the Treasury, Mr. Paulson, were there not calls then and subsequently for the nationalization of the banking system in the United States?

Mr. MASSAD. Yes, there were, Congressman.

Mr. CONNOLLY. And did TARP offer a market-driven private sector alternative to those calls?

Mr. MASSAD. Yes, I believe it did.

Mr. CONNOLLY. So despite heated rhetoric about big government takeover, actually, would it be fair to say, Mr. Massad, that TARP represented precisely the opposite?

Mr. MASSAD. I agree, Congressman, yes.

Mr. CONNOLLY. And, again, there were lots of concerns—and maybe, Mr. Barofsky, you want to comment, feel free to—that TARP was going to be this endless sucking sound that was going to, of course, suck up tax dollars and inflate the Federal deficit enormously. Is that what happened in the TARP program?

Mr. BAROFSKY. I would be happy to answer that. No, I think that one of the areas where TARP has succeed has been in the declining estimates of the financial costs of the program, absolutely.

Mr. CONNOLLY. And what is the net cost currently of the $700 billion that was originally allocated for TARP?

Mr. BAROFSKY. It depends on who you ask. CBO did an estimate. We have all three estimates in the most recent quarterly report. CBO's most recent estimate is in the area of about $25 billion; Treasury's most recent estimate is in the area of about $50 billion. OMB has a much significantly higher estimate, but it's sort of dated back to May 2010, it hasn't been updated yet. I anticipate that number will come down as well.

Mr. CONNOLLY. But the nonpartisan Congressional Budget Office, on which this institution has historically relied, except recently when we apparently don't like their numbers, says $25 billion net cost?

Mr. BAROFSKY. $25 billion. And I think the reason for the big difference between theirs and Treasury's number is that CBO has looked at the HAMP program and basically doesn't believe that Treasury will spend even a fraction of the amount that it has allocated.

Mr. CONNOLLY. Are there still warrants and stocks to be sold that could yet improve that net estimate of $25 billion negative?

Mr. BAROFSKY. I am assuming that when CBO does its estimate, it considers those factors in fashioning its estimate.

Mr. CONNOLLY. But I mean, of course, everything is about timing, when you sell the warrants and stocks.

Mr. BAROFSKY. Oh, of course. The markets could improve, which would be losses would go down; or the markets could get worse, in which case the projected losses would go up.

Mr. CONNOLLY. Aha. OK. You mentioned the HAMP program. I seem to recall this committee having a hearing, I think last year, and at that time my friends on the other side of the aisle criticized the program, which they opposed, but they nonetheless criticized it because it only helped 167,000 Americans. Do I now understand that number is half a million?

Mr. BAROFSKY. Yes. I'm sorry, go ahead.

Mr. MASSAD. Yes, that is correct, Congressman. That is the direct permanent modifications, and, of course——

Mr. CONNOLLY. OK, so this failing program, nonetheless, has managed to help more Americans.

Mr. MASSAD. Sometimes I think of it as the little train that could; it keeps chugging along and helping people, yes.

Mr. CONNOLLY. Now, at that hearing we had testimony from banks, and maybe, Mr. Massad, you are aware of this testimony, in which those bankers said that even the number at that time, which was 167, understated the reach of the program positively because a lot of banks were in fact helping homeowners because HAMP existed and had created a standard they could follow. Would you comment?

Mr. MASSAD. That is absolutely right, Congressman. Before we started HAMP, the servicers really weren't doing modifications, they weren't addressing this crisis. To the extent modifications were done, they often raised people's payments. And when HAMP came in, it provided some standards that the servicers have now emulated in their proprietary programs. Fannie May and Freddie Mac also adopted some of our standards for their mortgages.

So the indirect effect has been quite great. And sometimes people talk about the numbers of foreclosures and so forth. If you look at the total number of modifications entered into since April 2009, either under HAMP or under other programs, it does outpace foreclosure sales, completions, if you will, by two to one. Again, it is not enough. I am always the first to say we haven't done enough, but I think we are making this crisis better, at least, for——

Mr. CONNOLLY. I thank the gentlemen.

My time is up and I thank the Chair.

Chairman ISSA. You are very welcome. The Chair now recognizes the gentleman from Oklahoma, Mr. Lankford, for 5 minutes.

Mr. LANKFORD. Thank you I have a few questions. I want to just be able to get some clarifications. And thank you, gentlemen, for allowing us to be able to step out and vote and be able to step back in as well on it.

Mr. Massad, I am aware of some of the limitations that Dodd-Frank has placed on TARP and the boundaries of the new programs and such on it. Is Treasury willing to be able to assure us today that there is no plan, no intention that any TARP funds will be used for State pension bailouts or for State government bailouts based on the limitations of what can be used in TARP?

Mr. MASSAD. Yes, sir.

Mr. LANKFORD. Terrific. Just wanted to be able to get clarification on that. On page 1 of your report, in paragraph 4 it details some of the numbers on it: the $410 billion disbursed to date, we have received back $270, representing $235 billion; $35 billion additional income; approximately $166 billion remains outstanding. If I am running those numbers correctly, we are missing about $9 billion in that figure on that, so I didn't know if you would be willing to be able to resubmit to us just a written update on that, where that other $9 billion and how that fits in there on that.

Mr. MASSAD. I would be happy to do that, sir. I don't believe it is $9 billion, but I would be happy to do that.

Mr. LANKFORD. Terrific. Those numbers, when we add them together, the quick detail out there; and I know that is just a very quick detail on it.

The third thing is on the auto industry financing program, what is the plan at this point? You gave us a great statement on that. What is the plan for exiting out? We have gone from 61 percent ownership in stock to now 33 percent. That is terrific, that is making great progress, and thank you for that. What is the plan to take us down to zero percent?

Mr. MASSAD. We are actively working on that. I want to be careful. Because of the securities laws, we can't be too definitive about a timetable, but now that we have completed the initial public offering of GM, we do have a pathway to sell the rest of our shares, and I would expect that we would sell all those, hopefully, within the next 2 years, market conditions permitting. With respect to our other investments in Chrysler and Ally Financial, we are also working toward initial public offerings of those institutions.

Mr. LANKFORD. Has Treasury set up a timetable on what they are looking for to say, by this date certain we are going to be out, regardless, or is this—this is going to sound pejorative—playing the market with it to try to work it out? But is there some plan to say by this date certain we are going to be out?

Mr. MASSAD. No, we haven't done that because I think we do have to be sensitive to a couple of things. One is market conditions. Also, in the case of the companies that aren't yet public, they really have to be ready to go public, we can't force them really to do that. But I can assure you that we are trying to get out of all of these investments as quickly as possible. I firmly believe that our purpose, which is to promote financial stability, is best served today by getting the Government out of the business of owning interest in private companies.

Mr. LANKFORD. I would definitely concur on that one as well. With that in mind, is Treasury still day-to-day in the operational business of GM, Chrysler and Ally? Is there still someone that is onboard there with their stockholders and such that is helping advise?

Mr. MASSAD. We monitor those investments, but we have never participated in the day-to-day management, and we have made it very clear that we will not do so and we do not think that is an appropriate role for the U.S. Government.

Mr. LANKFORD. Terrific. I would agree on that one as well. Mr. Barofsky's report details $59.7 billion that is available, that is sitting out there, and I am sure that money may move around some based on day-to-day operations on it. When, in your opinion, does TARP sunset? When do we not have hearings on TARP because TARP doesn't exist anymore, all available funds have now been returned and there is no more TARP? What is the plan for that?

Mr. MASSAD. I would say on the investment side, again, we are trying to get out as quickly as possible. I, again, can't give you a timetable, but I think, with respect to the remaining investments, which let's call roughly $170 billion, I think we will get most of that back in the next 2 years. There will be some portion that we can't get back within that timeframe, but we will certainly, and we are, winding down the operation and trying to get out as fast as we can. With respect——

Mr. LANKFORD. Would it help at all to have a legislative solution on this, to set a timetable to say the American people need some assurances that, 20 years from now, we are still not TARPing, that we are out there and that we have a time certain?

Mr. MASSAD. I don't think a legislative solution would be helpful because that could depress the value that we could get for the investments that we have. But believe me, I don't intend to be here 20 years from now.

Mr. LANKFORD. Great. Let me give you one last quick question on it as well. In Mr. Barofsky's report, as well, it details out that the five largest banks now control about 60 percent of gross domestic product; they are all 20 percent larger than what they were before the crisis on this. Obviously, we have a heavy emphasis going in the largest of banks. I know you were talking about how the small and medium sized banks are assisting as well, but the end result has been the biggest banks have grown bigger, and they seem to be even more of a systemic risk.

Mr. MASSAD. There has been increased concentration in our financial system as a result of this crisis. I think probably without TARP that would have been even greater, because we wouldn't have helped a lot of institutions that have been able to weather the storm. But the question as to whether it is too concentrated is certainly one that this Congress can take up.

And as Mr. Barofsky has properly noted, that is an issue that the Congress may wish to consider. I think what we have right now under Dodd-Frank are tools to try to regulate that. As the comment was made, some people have suggested nationalizing banks; some people have suggested breaking them up. That is obviously policy options that the Congress can consider.

Mr. LANKFORD. It just seems to me that we have a preference for the largest of banks in this structure. And I understand that my time has expired. Thank you very much.

Mr. MASSAD. Thank you.

Chairman ISSA. I thank the gentleman.

The Chair now recognizes the gentleman from Illinois, Mr. Walsh, for 5 minutes.

Mr. WALSH. Thank you, Mr. Chairman.

Thank you both for coming in; it has been a long morning. Let me be very brief and ask two broad, macro level questions and try to get an answer from each of you. Like a lot of my colleagues, I hear from community banks every day who are struggling. Like a lot of my colleagues, I hear from community and small banks every day who resent the fact that it seems like TARP, the Government sided with the big banks. Broad question: Why are these community banks struggling? What is your biggest concern that you have right now for community banks?

Mr. MASSAD. That is a very good question. A lot of the small bankers do have loan portfolios that are more heavily weighted to the real estate sector and, therefore, they have been hurt by that. No. 2, they don't have access to capital as easily as the big banks, so those are very real concerns. And we have tried, with the TARP program, to address some of that. You know, essentially, when you look at the money invested in banks, about $250 billion overall under TARP was invested. Most of that, $234 or so, around that amount, was done under the Bush administration.

I agree with the actions that they took, but I am just pointing out that they did that. $125 billion of it went to the largest institutions in the country. When Obama came in, we have only invested an additional $11 billion in banks, and a lot of that went to a lot of the smaller institutions and we set up special programs to help them. But many of them are still struggling and we are trying to do our best to get this economy back and get an economic recovery, get the housing market stabilized, because I think those are the best things we can do for those banks.

Mr. WALSH. And, Mr. Barofsky, why still this persisting struggle with the community banks?

Mr. BAROFSKY. Part of it is, as Mr. Massad pointed out, the structure of their portfolio, but a large part of it is also the continuing existence of too big to fail; it gives an inherent advantage to the larger banks. There is a reason why the smaller banks don't have the same access to capital as the larger banks; they don't have the access to the virtually free money from the Federal Reserve that the larger banks. A lot of what has been the result of TARP and the related programs is it has given the opportunity for the largest banks to essentially earn their way out of trouble, and those are opportunities that are not available for the smaller and community banks.

Mr. WALSH. So maybe this leads, then, to my second brief macro level question. Each of you offer one broad level critique of TARP, either with its implication, with its design. If you were to each offer one broad critique of TARP, what would it be?

Mr. MASSAD. You know, if we had to do this all over again, and obviously I am assuming we will not have to, there are a lot of things we could change or would change, Congressman. It is hard to be specific. There are certain things in the housing program that we have done later that we might have done earlier. I agree with the comment that was made earlier that it was proposed as a purchase of troubled assets and then I think the Bush administration wisely changed course because I think they had to, but that obviously contributed to some of the criticism.

So it is things like that. There are many others I am sure that we would do over, but I think the key thing is hopefully now, under Dodd-Frank, we have the tools that will make this sort of thing unnecessary in the future.

Mr. WALSH. One overall critique, Mr. Barofsky.

Mr. BAROFSKY. I think one of the things that could have been done better, within the realm of possible, within the realm of what the TARP was, was better transparency for the Treasury Department. From day one this has been a recurring theme of our criticism, and we have been very bipartisan in our criticism for both the Paulson Treasury Department, as well as the Secretary Geithner Treasury Department.

But explaining this better to the American people, being more up-front and honest about these programs, whether it was saying that the first nine institutions were all healthy and viable, when they knew full well that some of them were not; to some of the more recent statements, the cheerleading statements about the program, which under a little bit further examination certain things were left out.

I think that having a more transparent program—and it is not too late, and I would encourage Treasury to renew its efforts toward transparency—will help address some of the real negative views of this program, because I think if people understand it and feel that everyone is being up-front with them, it can be a more informed conversation, be a more informed debate. Right now, Treasury's running of this program has been viewed of one, I have heard, of picking winners and losers, or backroom deals, and those criticisms really come out of these transparency failures.

Mr. MASSAD. If I may respond to that. I am fully committed to transparency, and most of the particular suggestions that SIGTARP has made in this regard we have implemented.

I would just like to note, because I think often people aren't aware of it. We publish annual financial statements which are audited, and we have received clean opinions on these financial statements for 2 years, without any material weaknesses. That is actually a very rare thing for a startup entity; it is a relatively rare thing in government.

We publish a monthly report to Congress that lays out exactly where the money is, how much of it has come back, what is the status of the program. We publish a transaction report on each transaction within two business days of completing it. We publish a dividend and interest report quarterly which shows how much dividend and interest payments we have gotten. We put all of our contracts and agreements on our Web site.

That means not only any contract entered into with a financial institution, but also all the procurement contracts, all the documents related to HAMP, and any program we have, as well as program guidelines and other materials. We have testified before Congress numerous times; we meet. We have three oversight agencies and we fully cooperate with them and give them all the information that they need. They have produced a total of 75 reports.

So we can always strive to do more, but I think, actually, there is a lot of information about this program available.

Mr. WALSH. Thank you both.

Thank you, Mr. Chairman.

Chairman ISSA. You are very welcome.

If anyone else arrives who has not had a first round, we will take them if they arrive before we finish. Otherwise, with your indulgence, we would like to have a brief second round for a couple people.

At this time, I would go to the chairman of the subcommittee of jurisdiction, Mr. McHenry, for his questions.

Mr. MCHENRY. Thank you, Mr. Chairman.

I would begin by, this has not been discussed greatly, but the moral hazards created by TARP is mentioned, Mr. Barofsky, in your report. You have mentioned it before. This is certainly a big concern.

Mr. Massad, S&P considers the likelihood of government's support explicitly in their credit rating. Are you aware of that?

Mr. MASSAD. [No audible response.]

Mr. MCHENRY. OK. Do you think that is a direct result of TARP?

Mr. MASSAD. I would say it this way, Congressman. I think because we didn't have the tools to deal with this rescue, we had to do TARP, and that does raise the moral hazard, too big to fail concerns that Mr. Barofsky has mentioned. But I think now Congress has addressed those through Dodd-Frank. We haven't implemented Dodd-Frank yet, but those are the tools we now have. So I don't think it is appropriate to blame it on TARP but, rather, blame it on the fact that we didn't have an adequate regulatory system, and that is what we are trying to improve now.

Mr. MCHENRY. I would like to call up the Geithner slide, if I could. Secretary Geithner, Mr. Barofsky, and your report on Citi, outlines very clearly in the future we may have to do exceptional things again if we face a shock that large. We just don't know what is systemic and what is not until you know the nature of the shock.

Now, Mr. Barofsky, was this interview post-signing of the Dodd-Frank law?

Mr. BAROFSKY. This interview occurred in December 2010.

Mr. MCHENRY. Mr. Massad, it seems that your testimony is counter to your boss's testimony. How do you reconcile that?

Mr. MASSAD. No, I don't think it is. I think what Secretary Geithner was referring to, and neither I nor Mr. Barofsky were actually in the room, but——

Mr. MCHENRY. But we have his words.

Mr. MASSAD. Yes, we do, and I have also spoken to him about this. What he was referring to was the ability to use the tools under Dodd-Frank to address this and the fact that we don't know exactly what the issue will be.

Mr. McHENRY. Right.

Mr. MASSAD. But the tools under Dodd-Frank are flexible. We are not going to have just a set of immutable, quantitative criteria that say if you are above this amount of assets, you are too big to fail.

Mr. McHENRY. OK.

Mr. MASSAD. We have qualitative and quantitative——

Mr. McHENRY. My next slide is President Obama said last night in the State of the Union because of this law, there will be new rules to make clear that no firm is somehow protected again—I am sorry, the Dodd-Frank signing in July of last year. He said these new rules will make clear that no firm is somehow protected because it is too big to fail so we don't have another AIG.

Mr. Barofsky, it seems that Secretary Geithner's words run counter to that. And it is hard to, after the fact, for his staff to say he didn't really mean it. Can you give us context for this?

Mr. BAROFSKY. Sure. And a couple things I want to make very clear. I was not in the room; I had six members of SIGTARP, including my deputy, were in the room. And after we received this quote, we documented it and, as is the normal practice of our reports, we provided the quotes in a draft copy of the report to Treasury, both the quote itself and the context in which it was presented, and we had a number of conversations. They made some suggestions; we incorporated those suggestions. And at the end of that process Treasury assured us that they did not contest the language that was used, the quote itself, and did not think that we had presented it in any type of misleading or wrong context.

So the quote is the quote. We stand by it. There is no question in my mind, and based on our interactions with Treasury before the report was released, that it is an accurate quote. I think that Secretary Geithner, and it was the impression of the six people in the room, was being transparent, was being candid, and I commend him for that, by recognizing the reality that the market is today that banks are still too big to fail.

Now, the hope is that if Dodd-Frank—and certainly Dodd-Frank has given the regulators many, many potential tools, and if those tools are implemented correctly—and that is a very, very big if—it would require actions by the regulators that, frankly, they did not seem capable of doing in the runup to this crisis, as far as seeing around corners and understanding. But let's assume that they can. Hopefully we can get to a day or a point where the market will believe that the government doesn't need and will not bail out these companies. But we are not there.

Mr. McHENRY. So we know that S&P has made the idea of a bailout, a TARP-like program or Dodd-Frank—it is hard to really judge based on S&P making permanent their analysis of really a Federal backstop to bail out the biggest firms. We also know that there is explicit guaranties, signed through contracts in 2008 and 2009, for these financial institutions, whether it is the Fed, FDIC, or TARP, of a backstop to—well, government guaranties of assets. We know the explicit number, right?

Mr. MASSAD. Yes.

Mr. McHENRY. So the question to both of you is can you tell this committee what you believe the net present value of implicit government guaranties are going forward to these financial institutions?

Mr. BAROFSKY. There have been some studies, and I think we include one as a footnote reference in our report. We don't do that type of economic analysis, but I think I saw one that suggested that it was—and please don't quote me on this—I think a $34 billion a year advantage that the larger institutions have because of their ability to raise debt more cheaply than their smaller rivals. That is one number, I believe, from one academic study that may be helpful.

Mr. MCHENRY. Mr. Massad.

Mr. MASSAD. Certainly, Congressman, I don't have an ability to quantify that on the spot, but let me just try to respond to your question. In terms of explicit guaranties, I think you are referring to the Citigroup asset guaranty program, which has now been terminated at a profit to the U.S. Government, so there is no longer——

Mr. MCHENRY. No, actually, that is not what I am referring to. There are actually—at the time of the economic crisis, as has been well documented, FDIC, the Fed, TARP, Treasury has explicit guaranties through contracts that are publicly available. I am asking you about the implicit—and those are well know, well documented; we don't have to rehash them here. I am asking about the implicit guaranties. And Mr. Barofsky, as he mentions in his report, has——

Chairman ISSA. If the gentleman could conclude.

Mr. MASSAD. But really I think the thrust of your concern is have we addressed the too big to fail issue sufficiently, and I guess my response to that is that Congress passed the Dodd-Frank law to address that. If there is a view of some that wasn't sufficient, that is a judgment for Congress to make. But I think where we are now, where Treasury is is that we are actively trying to implement that law so that we can use the tools it gave us to make sure that no institution is too big to fail. And I think it is premature to conclude that it hasn't worked and that we need some tougher legislation to address that.

Chairman ISSA. I thank the gentleman.

The Chair now recognizes the ranking member.

Mr. CUMMINGS. Mr. Massad, the Dodd-Frank legislation includes a number of provisions intended to eliminate the concept of too big to fail. For example, the legislation is clear that taxpayers will not cover the cost of saving failing institutions and will not cover the cost of liquidating such an institution. Further, the legislation alters the Federal Reserve's 13(3) emergency lending authority to prohibit bailing out an individual company. Finally, the legislation creates a Financial Stability Oversight Council to monitor systemic risks and to require non-bank financial companies that pose a risk to the financial stability of the United States to submit to supervision by the Federal Reserve.

Can you describe briefly how implementation of these measures will address the too big to fail problem and what is the time line for implementing the measures?

Mr. MASSAD. Congressman, I can describe that very generally, because, actually, it is not my responsibility to implement it, but

I am happy to get the appropriate officials of Treasury to brief you. But my understanding where we are is the law was passed in July. There are a number of rulemaking procedures and studies that are being conducted. The FSOC holds regular meetings and it always has a part of that which is public, and they are busy working on these. They are also busy creating the Office of Financial Research, which is designed to monitor conditions in the financial industry and help us determine what risks need to be addressed. But I would be happy to get you——

Mr. CUMMINGS. Please do.

Mr. MASSAD [continuing]. A more detailed briefing.

Mr. CUMMINGS. And we will followup with you with some detailed questions, all right? And if you can answer this: How will criteria be established to allow us to identify firms that pose systemic risks and are therefore systemically significant? I take it that you will do that in writing also?

Mr. MASSAD. I can do that. I will say very generally that it is going to be, as has been announced, quantitative as well as qualitative judgments, and the criteria aren't simply about size; they are about riskiness of activities, interconnectedness, extent of leverage, extent of supervision. So I think these matters are being given a lot of thought. They are obviously very complex issues, but I would be happy to get you a more detailed summary of where we are on that.

Mr. CUMMINGS. Thank you. Let me say this. I think that you all hear, both sides of the aisle, we are all very concerned about HAMP, Mr. Massad, and we also are concerned about servicer behavior. And I understand that you and SIGTARP disagree about your authorities, but based on your understanding of your authorities, can you and will you take more aggressive steps to require improved servicer performance?

Mr. MASSAD. Certainly, Congressman. I don't think, actually, we disagree with the extent of our authorities, but maybe there is just a difference in how we can best improve the program in terms of using those authorities.

Mr. CUMMINGS. Do you all talk?

Mr. MASSAD. Yes, we talk regularly.

Mr. CUMMINGS. OK, I just want to make sure.

Mr. MASSAD. But let me just say I want to make very clear while we think the benefits of these housing programs are very real and very important, we are still trying to improve them, still trying to reach as many people as possible. And it is not just HAMP.

Mr. CUMMINGS. I understand that.

Mr. MASSAD. I mean, obviously, statements have been made about HAMP. A lot of the money goes to some of the other programs as well. But I think the key thing is the statement was made that, well, because this hasn't gone as well as you had hoped, or because there are these problems, we should simply turn it all back over to the servicers and let them deal with it; and I think that would absolutely be the wrong thing to do. That is what got us here. It has been clear, not just from our HAMP experience, but from the foreclosure irregularities issues and from a number of other standpoints, that turning it back over to the servicers would not be constructive at this time.

Mr. CUMMINGS. Two things. You had talked a little bit earlier about retooling. I take it that there are things that you are doing now, you are in the process of doing, trying to improve the program to make it more effective and efficient, is that right?

Mr. MASSAD. That is correct. We have done a number of things——

Mr. CUMMINGS. And I want you to give us a list of those things and when do you expect them to be complete. I am running out of time, unfortunately.

Mr. MASSAD. Well, it is an ongoing process. As we see problems, we respond to them. But, for example, some of the things we have recently done is we have addressed the fact that servicers might have been considering someone for HAMP at the same time as they were foreclosing. We have addressed the fact that initially we started this program by trying to get a lot of people into trials and we didn't make the servicers verify the income. That obviously led to the fact that a lot of people then didn't get into permanent trials. We have addressed that and we have worked through the backlog. So it is an ongoing process and I would be happy to give you a list.

Mr. CUMMINGS. Let me ask you this. One of the things that I said to the chairman, and I really want to thank him for this, we talked about how do we make our agencies more accountable. If you are doing things that are going to improve this program, Mr. Chairman, I would ask that we bring Mr. Massad, or somebody from his agency with that level of authority, back at a certain date to give us a report as to exactly where they stand, because I think we are—you have said it and I have said it, and we all agree that we do want accountability.

I don't want to see the program ended, but if you are telling us that you are doing things to improve the program, I want to know. I want you to tell us when you can come back to us and give us some more information so that we can have some confidence, because both sides of the aisle are quite frustrated, to be frank with you.

Mr. MASSAD. Certainly, Congressman. Happy to do that.

Chairman ISSA. And in response, if you will commit to give us monthly updates next month and the following month, we will commit to have you back in your next quarterly report, if that works for both of you.

Mr. MASSAD. That is fine.

Mr. CUMMINGS. Mr. Chairman, I really appreciate that.

Chairman ISSA. Thank you.

Mr. CUMMINGS. And I yield back.

Chairman CUMMINGS. I thank the gentleman.

In closing, I have just a couple of questions, and these can be answered for the record because they tend to be perhaps a little complex. Today we have talked specifically about TARP. That was the subject. We got into HAMP. My understanding is that HAMP, of course, is shared with another piece of legislation, HERA. It has joint funds. We did not get into the $30 billion of obligated and how that is scored and all of that.

If you would, and I know Mr. Barofsky has a very thorough quarterly report, but if you would try to create before this next 30-day update a good analysis so the Members can have your interpretation of outstanding funds, meaning—and this is a question for Treasury in consultation with the Fed—obligated funds remaining at the Fed, because we are not the Financial Services Committee, so you will have to give us a little primer from time to time; looking at the funds committed under other programs, including HERA. Because I think that will help us understand where is the money still remaining out that is either obligated or literally out, and that will help us 30, 60, and 90 days from now.

It is very clear that we do still have major credible agencies that believe too big to fail is leading them to having more success in loaning money at a lower amount. That is a challenge for small banks, and we certainly would like to work as a committee to ensure that, as Dodd-Frank is put into action, that leads to a fading away of that as the President had promised at the time of its signing.

We also didn't talk about, and I would like this included in your report or briefing sheet, the approximately $145 billion that I believe is gone forever to the GSEs, the actual failure rate, which often, as we are talking about the success of TARP, we are forgetting about Freddie and Fannie's actual losses that we have backstopped as a Nation.

One thing that I would appreciate, which is uniquely to Treasury, most of us here in Washington who have been in business have tried to convert from GAAP over to understanding the Federal Government's pay as you go accounting. Now, at Treasury you are a little different, you are a hybrid, and so as I looked through a report, which I believe our people have furnished you with, a report internal that we developed,—if not, we will—I began seeing the accrual system of reserves come into play in a way that, as a public company officer, I always question. OK, you had a stated value, a marked to market value, you went back and stated them, restated them in this year for the previous year, and they got worse.

However, in this year they got so much better that there is this $154 billion to $110 billion swing. And we will give you our source material, because it may very well be that you can clarify it to where we understand it is simpler, not more complex. But I think it is important because, as I understand it, those numbers reflect really reflect on the anticipated deficit and other figures that we look at, and I think all of us want to know the true deficit in 2009, the true deficit in 2010, and so on. Actually, we don't want to know it, we would like it not to exist, but we would at least like to have the accurate numbers for them.

Last, a request. Today we have been talking in net dollars. Before we talk again, I would like the committee to have source material that preferably you two very much agree on in the way that a normal business would do it, meaning you represent a profit from investments you made, loans you made, warrants, etc., that have been realized. Those do not go as an offset against other bad deals. We are not looking for your net profit.

What we would, I believe, like to see is where you put the money in and what you lost; where you put the money in and what you gained. So effectively what we are saying is scrape off the profits and put them in a pile from the good deals. But any time a particular basket, meaning a company or an entity, had a loss, we would like to see those losses. Because I think when we are evaluating what worked and didn't work in this program that never did what we anticipated, but did something very different, it is important, I think, for all of us to see, OK, loans to solvent entities in certain forms worked; other things not so much. And obviously some of these you can't answer because General Motors and Chrysler are projected but not yet final, but we will take the projection.

Last, I would like to take the liberty, quickly, in closing of reading what is a draft, but we believe will be the final mission statement, because as a private sector guy, I figure at some point when you take over as CEO, the first thing you have to do is make sure your mission statement to your people matches what you would like to see. And because this is our first hearing, I would like to read it.

Americans deserve to know that money Washington takes from them is well spent. Americans deserve an efficient, effective government that works for them. Our job on the Oversight and Government Reform Committee is to help Americans secure these rights. Our task is to hold Government accountable to taxpayers because taxpayers have a right to know what they get from government. We will work tirelessly in partnership with citizens-watchdogs to deliver facts to the American people that bring reform to the Federal bureaucracy.

This is our mission statement. Hopefully we began today by asking you, as you have done, to help us in that effort. I thank you and we stand adjourned.

[Whereupon, at 12:16 p.m., the committee was adjourned.]

[[The prepared statements of Hon. Elijah E. Cummings and Hon. Mike Quigley, and additional information submitted for the hearing record follow:]

DARRELL E. ISSA, CALIFORNIA
CHAIRMAN

ELIJAH E. CUMMINGS, MARYLAND
RANKING MINORITY MEMBER

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Opening Statement

Rep. Elijah Cummings
Ranking Minority Member

January 26, 2011

Thank you, Mr. Chairman. The title of today's hearing is "Bailouts and the Foreclosure Crisis." On the first issue, we have some encouraging news today on TARP and its outlook for American taxpayers. But on the foreclosure issue, I am concerned about escalating allegations of abuse by the private mortgage service industry.

The SIGTARP report issued this morning has an increasingly favorable assessment of TARP's financial success. Here is what it says:

> "On the financial side, TARP's outlook has never been better. Not only did TARP funds help head off a catastrophic financial collapse, but estimates of TARP's ultimate direct financial cost to the taxpayer have fallen substantially. ... While Treasury's ultimate return on its investment depends on a host of variables that are largely unknowable at this time, TARP's financial prospects are today far better than anyone could have dared to hope just two years ago."

This is great news for the American taxpayer. But the report correctly warns that there is still hard work ahead. And it's important that we continue strong oversight efforts. I have long demanded stringent oversight of the TARP program, a program proposed by President Bush in 2008 and enacted after significant improvements by Congress. I previously requested that SIGTARP audit the hundreds of millions of dollars AIG expended on bonuses. I also led 26 of my colleagues in requesting that SIGTARP audit the payments made to AIG's counterparties.

Despite this positive news, I am very concerned about serious allegations of abuse by the mortgage service industry. Today's SIGTARP report calls their performance "abysmal" and describes "nearly daily accounts of errors and more serious misconduct." The SIGTARP report also says this:

> "Anecdotal evidence of their failures has been well chronicled. From the repeated loss of borrower paperwork, to blatant failure to follow program standards, to unnecessary delays that severely harm borrowers while benefiting servicers themselves, stories of servicer negligence and misconduct are legion."

Mr. Chairman, we cannot do a comprehensive examination of the foreclosure crisis without hearing from the industry. That is why I sent you a letter on December 21 asking you to hold the Committee's first hearing on "the widespread utilization of flawed and fraudulent practices ... throughout the mortgage servicing industry." This has been my number one priority since before you and I assumed our current positions on this Committee, and I ask that my letter be put into the record.

It's the same reason I sent you another letter on Monday, asking that you add an industry witness to today's hearing. I asked you to invite JP Morgan, one of the largest mortgage servicers in the country. I also ask that this letter be put into the record.

I asked for JP Morgan because this company has been implicated in a number of recent scandals, including improperly foreclosing on the homes of military service members deployed overseas. These young men and women are risking their lives for our country. But the company admitted last week to improperly charging them millions of dollars and taking their homes without justification, leaving their loved ones stranded and distressed.

I can't imagine an investigation more worthy of this Committee's time and energy.

You did not want the industry witness to testify here today. But my understanding is that you are prepared to schedule another hearing next month to investigate these and other abuses by the industry. It's hard for me to understand how we can have today's hearing on the foreclosure crisis without anyone from industry at the witness table. Nevertheless, if that is your plan, I will accept your assurance that the Committee will conduct a thorough, bipartisan investigation of the industry's role in the foreclosure crisis.

Finally, let me conclude by telling you why this issue is so important to me. The foreclosure crisis is affecting more families every day. In 2009, there were 2.8 million foreclosure filings. In 2010, there were 2.9 million. This year, the number is expected to surpass 3 million.

In my district office, my staff work day in and day out helping constituents stay in their homes if they are financially able. I hold regular Foreclosure Prevention Workshops to bring borrowers face-to-face with their lenders to see if there is any way they can work out their mortgages. I have seen with my own eyes how this foreclosure crisis affects real families. Every member is representing constituents suffering from this crisis, and neighborhoods are being destroyed.

That is why I push so hard on this issue, and why I hope we will follow-through on this commitment.

DARRELL E. ISSA, CALIFORNIA
CHAIRMAN

ELIJAH E. CUMMINGS, MARYLAND
RANKING MINORITY MEMBER

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January 24, 2011

The Honorable Darrell E. Issa
Chairman
Committee on Oversight and Government Reform
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

You have scheduled a hearing on January 26, 2011, entitled "Bailouts and the Foreclosure Crisis: Report of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP)." Although you have invited officials from the Department of the Treasury and SIGTARP, you have invited no witnesses from the mortgage industry itself.

I request that you invite Stephen M. Cutler, Executive Vice President and General Counsel of JP Morgan Chase & Co., one of the largest servicers of mortgage loans in the United States, to testify about the foreclosure crisis and the company's actions and policies with respect to servicing mortgages. If Mr. Cutler is unavailable, I ask that you invite an official designated by the company to provide this testimony.

Sincerely,

Elijah E. Cummings
Ranking Democratic Member

ELIJAH E. CUMMINGS
7TH DISTRICT, MARYLAND

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December 21, 2010

The Honorable Darrell Issa
Ranking Member
House Committee on Oversight and Government Reform
2347 Rayburn House Office Building
Washington, DC 20515

Dear Ranking Member Issa,

As the incoming Chairman and Ranking Member of the House Committee on Oversight and Government Reform, our respective tenures do not officially begin until January 2011. Nonetheless, we both understand that the challenges facing our nation and the American people will not wait until the New Year. One crisis that continues unabated is the foreclosure crisis and therefore, I write to you today to request that the Committee make this issue the subject of its first hearing in the 112th Congress.

As you know, since 2007, our nation has experienced 2.5 million foreclosures. Currently, four million homeowners are at risk of foreclosure, and millions more are "underwater," owing more on their mortgages than their homes are worth. Because of the severe toll that foreclosure takes on individuals, families, communities, and the global economy, this Congress and the administrations of Presidents Bush and Obama have put forth programs like the Home Affordable Modification Program (HAMP), aimed at stemming the foreclosure tide and restoring strength and stability to the housing market. These programs are premised on the fact that an effective response to this crisis requires a collective national effort and shared responsibility among the government, the mortgage industry and individual borrowers. Yet available data demonstrates that the mortgage industry lacks the infrastructure or the willingness to mitigate foreclosures in a consistent, transparent or responsible manner. Moreover, recent reports indicate that the servicing industry may be undermining the guidelines set forth in HAMP and other government programs, and potentially violating the law.

As you know, since September 2010, ongoing reports have revealed the widespread utilization of flawed and fraudulent practices, most notably "robo-signing," throughout the mortgage servicing industry. These revelations prompted the nation's largest mortgage servicers to halt foreclosures in 23 states and conduct internal reviews, and also led all 50 state attorneys general to initiate a joint investigation into these practices.

The Honorable Darrell Issa
December 21, 2010
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However, recent reports demonstrate that the problems have not subsided and may be more egregious and widespread than initially revealed. Just yesterday, the chief justice of New Jersey's highest court announced that the state's courts would stop foreclosures if the banks cannot show that they are following state law when processing foreclosures. On Friday, December 17, 2010, the attorneys general of Arizona and Nevada filed a lawsuit against Bank of America, accusing it of engaging in "widespread fraud" by misleading customers with "false promises" about their eligibility for modifications on their home mortgages.

These allegations mirror the countless complaints about loan modification practices that I have heard from my own constituents, as well as the information and evidence that have been compiled by the Congressional Oversight Panel for the Troubled Assets Relief Program (TARP), the Special Inspector General for the TARP, and numerous Congressional committees. In August 2010, I personally wrote to approximately 20 loan servicers, including Bank of America, to relay concerns and request information regarding their loan modification and loss mitigation practices. The responses I received were vague and glossy, and assurances made in these letters have been contradicted by widespread reports of shoddy practices and disregard for the law.

I share the concerns of our Congressional colleagues, federal oversight authorities, and the American public that the current foreclosure mitigation processes are wholly insufficient to shore up the housing market; further, they do not duly acknowledge the substantial sacrifice that has been borne by the taxpayers as government has extended unprecedented levels of aid to financial institutions at risk of failure. Given this Committee's responsibility to ensure the prudent and responsible use of tax dollars, and the effective and capable administration of government, I believe it is essential that we examine the veracity of these reports and the extent to which existing government programs and provisions of public support are being undermined or abused.

As you have previously said, the prerogatives and responsibilities of this Committee include preventing the government from taking away people's liberties or spending tax dollars less efficiently than the American people would spend it themselves. Integral to those duties are ensuring that others are not undermining government programs or utilizing them to deprive the American people of their due process rights or inappropriately deprive them of their property. Therefore, I request that our first hearing examine these reports and the ongoing foreclosure crisis. Please do not hesitate to contact me if you wish to discuss this or any other matter. I look forward to working with you throughout the next two years to ensure the efficient and effective use of public resources and government operations.

Sincerely,

Elijah E. Cummings
Member of Congress

Congressman Mike Quigley (IL-05)
Statement for the Record
OGR Hearing, January 26, 2010

Mr. Chairman, thank you for convening this hearing on such an important and timely topic.

As the Ranking Member on the Subcommittee that has jurisdiction over TARP, I look forward to more hearings on our continuing response to the financial crisis—

—as well as to working with Subcommittee Chairman McHenry over the next two years.

I'd also like to thank Ranking Member Cummings for the leadership he has already shown on this issue, and for the extensive prep work he and his staff did for this hearing.

Mr. Chairman, as many of us recognize, TARP has had a mixed track record over the past two years.

On the one hand, it will cost taxpayers much less than we had feared.

Originally projected to lose about $350 billion, TARP is now projected to lose only $25 billion.

While this is no bargain, it is a marked improvement.

Still, $160 billion in TARP funds remain outstanding, and $60 billion has yet to be spent.

So even though TARP authority has technically ended, we must maintain vigilant oversight of the remaining program commitments.

I emphasize this point because over the past two years we have witnessed egregious abuses at some of the recipients of TARP funds.

On this I would like to recognize the Special Inspector General for saving taxpayers $555.2 million in fraud prevention.

Still, TARP's lasting image for many taxpayers will be the bank executives who were paid outrageous bonuses or those who used TARP funds to remodel their offices.

Not only have these abuses been very real and very costly, but they have also destroyed the public trust in government.

Consider that according to the annual Edelman Trust Barometer, trust in government has been resilient worldwide EXCEPT in the US.

The survey shows that the US in now on par with Russia in terms of trust in public institutions.

How can government function when its citizens trust it so little?

Unfortunately this failure of trust will be one of TARP's legacies.

TARP has also failed in one of its key mandates: preserving home ownership.

TARP allocated $46 billion to home ownership preservation programs, among them HAMP.

But despite this $46 billion allocation, it has only spent $1 billion.

This is totally unacceptable, especially in light of the massive assistance given to huge financial firms.

It also makes it unsurprising that HAMP has failed to live up to its initial billing.

Instead of permanently modifying 3-4 million mortgages, as had been promised, HAMP has only modified 500,000 mortgages.

The worst part is that 792,000 trial and permanent modifications have been cancelled, frustrating homeowners across the country.

Clearly a program with more failures than successes needs to be seriously rethought.

Going forward, we need to do much more to help prevent foreclosures and restore stability to the housing market.

This will be critical to our recovery.

We also need to responsibly manage the $160 billion in outstanding TARP lending.

Most importantly, we need to ensure that the Dodd-Frank bill is successfully implemented and that we eliminate the concept of "too big to fail".

American taxpayers do not want to pay for another bailout, and I can't blame them.

TARP will not end up costing us hundreds of billions of dollars and for that credit should be given to the Administration, SIGTARP, and others.

But its complete lack of transparency, especially in the early going, and its failure to stem the foreclosure crisis are entirely unacceptable legacies of this program.

For that it merits our continuing vigorous oversight.

Thank you.

Questions for Timothy Massad
Acting Assistant Secretary for Financial Stability
U.S. Department of the Treasury

Rep. Ann Marie Buerkle
Committee on Oversight and Government Reform

Hearing on "Bailouts and the Foreclosure Crisis: Report of the Special Inspector General for the Troubled Asset Relief Program"

January 26, 2011

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1. When is a firm "too big to fail?"

The 2008 financial crisis revealed many of the key deficiencies of our old regulatory system and underlined the necessity of the recent financial regulatory reforms. Our regulatory regime was simply not equipped to effectively monitor, constrain or respond to risks in our financial system, and we did not have the tools to liquidate, in an orderly manner, failing firms that threaten the overall stability of the system. Responding to these concerns, Congress passed the *Dodd-Frank Wall Street Reform and Consumer Protection Act* ("*Dodd-Frank*"). *Dodd-Frank* addresses the "too big to fail" problem in several important ways, including by establishing an orderly liquidation framework for firms that pose a systemic risk to financial stability; by creating a system to better monitor, identify, and address systemic risk monitoring; and by imposing heightened prudential standards on bank holding companies and nonbank financial companies designated by the Financial Stability Oversight Council.

2. When should a firm be immunized or rescued by the federal government from bad market conditions or poor decisions?

Under *Dodd-Frank*, as I mentioned above, no firm will be insulated from the consequences of its actions and no firm will be protected from failure. *Dodd-Frank*'s orderly liquidation authority provision allows the government to wind down a failing financial firm—wiping out shareholders, firing culpable management, and allowing creditors to take losses. Any losses that cannot be covered through sales of the firm's assets will be recouped from the largest financial institutions through an assessment—thus ensuring that large financial firms, not taxpayers, bear any costs.

3. If there are some industries that are deemed "too big to fail," what is your opinion regarding states and municipalities also being considered "too big to fail?" Should the federal government bailout states that are on the verge of insolvency?

As the Acting Assistant Secretary for Financial Stability, I am responsible for overseeing TARP on a day-to-day basis, and I can assure you that TARP funds cannot and will not be used to assist states that are on the verge of insolvency.

4. Do you agree with the following statement:

"The rescue of AIG continues to have a poisonous effect on the marketplace. By providing a complete rescue that called for no shared sacrifice on the part of AIG and its creditors, the government fundamentally changed the rules of the game on Wall Street. As long as the biggest companies in America believe that you and I will bail them out, the worst effects of the AIG rescue will linger"

The author of the above statement is Elizabeth Warren, Assistant to the President and Special Advisor to the Secretary of the Treasury on the Consumer Financial Protection Bureau.

The government's intervention in AIG was necessary because we did not have the tools to effectively deal with the financial crisis. We must remember the situation we faced in the fall of 2008, and why TARP was needed. TARP, combined with other government actions, helped save our economy from a catastrophic collapse and may have helped prevent a second Great Depression. The lesson we learned from having to take these actions was that to better protect ourselves against future crises, our regulatory system needed to be fixed, and that is what Congress has done by adopting *Dodd-Frank*.

Dodd-Frank gives the government the critical tools it needs to address the fundamental failures that led to this crisis and avoid the extraordinary interventions that were necessary in the Fall of 2008. In particular, *Dodd-Frank*'s orderly liquidation authority provision allows the government to wind down a failing financial firm—wiping out shareholders, firing culpable management, and allowing creditors to take losses. Any losses that cannot be covered through sales of the firm's assets will be recouped from the largest financial institutions through an assessment—thus ensuring that large financial firms, not taxpayers, bear any costs.

Questions for Timothy Massad
Acting Assistant Secretary for Financial Stability
U.S. Department of the Treasury

Rep. Patrick T. McHenry
Committee on Oversight and Government Reform

Hearing on "Bailouts and the Foreclosure Crisis: Report of the Special Inspector General for the Troubled Asset Relief Program"

January 26, 2011

1. **Please estimate the net present value of the implicit government guarantee (as reflected by a reduced cost of funds) provided to systemically important banks, broker-dealers and insurance companies. For purposes of this analysis, assume the implicit guarantee continues for ten years, thirty years and in perpetuity, and provide separate estimates for each of these three scenarios.**

   The 2008 financial crisis revealed many of the key deficiencies of our old regulatory system and underlined the necessity of the recent financial regulatory reforms. In particular, some firms had lower costs of funding based on the perception that they were "too big to fail." *Dodd-Frank* addresses the "too big to fail" problem in several important ways, including by establishing an orderly liquidation framework for firms that pose a systemic risk to financial stability; by creating a system to better identify and address systemic risk monitoring; and by imposing heightened prudential standards on bank holding companies and nonbank financial companies designated by the Financial Stability Oversight Council.

   In particular, *Dodd-Frank*'s orderly liquidation authority provision allows the government to wind down a failing financial firm—wiping out shareholders, firing culpable management, and allowing creditors to take losses. Any losses that cannot be covered through sales of the firm's assets will be recouped from the largest financial institutions through an assessment—thus ensuring that large financial firms, not taxpayers, bear any costs.

2. **Please also provide cites or website links to reasonable studies or journal articles that similarly consider the value of implicit and explicit government guarantees arising out of the recent financial crisis.**

   As noted in my answer to Question 1, *Dodd-Frank* addresses the issue of firms that are perceived to be "too big to fail" through new tools like the orderly liquidation authority provisions. Under those provisions the government now has the authority to wind down a failing financial firm—wiping out shareholders, firing culpable management, and allowing creditors to take losses. Any losses that cannot be covered through sales of the firm's assets will be recouped from the largest financial institutions through an assessment—thus ensuring that large financial firms, not taxpayers, bear any costs.